Jewel Companies, Inc. 1982 Annual Report

About the Company

Jewel is a diversified retailing company doing business in 32 states.

The Company operates:

- 114 combination food/drug stores
- 234 supermarkets
- 356 drug stores.

These retail stores operate under various names in different regions of the country:

- Jewel Food Stores, Eisner Food and Agency Stores, Jewel Osco and *Eisner Osco in the Midwest*
- Osco Drug Stores in 20 states across the country
- Buttrey Food Stores and Buttrey Osco in seven Northwest states
- Star Markets in New England
- Sav-On-Drug Stores, primarily in California, also in Louisiana, Nevada, Oklahoma and Texas

Jewel also operates several specialty companies in food retailing and service:

- White Hen Pantry convenience food stores in Illinois, Wisconsin, Massachusetts and Indiana
- Jewel T Discount Grocery Stores in nine states
- Mass Feeding Corporation serving pre-plated lunches in 1,322 schools in 16 states
- Park—a manufacturing plant producing goods for Jewel companies and for sale to other retailers.

Although historically known as a supermarket operator, about 50% of Jewel's U.S. operating earnings are currently generated by its higher margin drug store segment. Nationally, Jewel's drug store sales rank it as one of the country's four largest drug store chains.

The Company's supermarket sales and earnings are increasingly derived from its 114 combination food/drug stores. Future plans put major emphasis on expansion of these combination stores and its 356 solo drug stores. By 1985, the Company expects that approximately 85% of its U.S. earnings will be contributed by combination or common location food/drug units and stand-alone drug stores.

In addition, Jewel Companies has a 36.1% equity investment in Aurrera, S.A. de C.V., Mexico's leading private sector retailer. A major contributor to Jewel's earnings in recent years, this investment provided income at a reduced level in 1982 as a result of the sharp devaluation of the peso. Long range, however, participation in Aurrera is expected to continue as an important part of Jewel.

The Cover

In 1982 we published an updated edition of the *Jewel Concepts*, which documents the philosophies which are at the heart of Jewel's leadership beliefs and managerial tenets. These are Jewel's fundamental values which endure, decade after decade, because people are the key to Jewel's activities.

The 1982 edition of the *Jewel Concepts* includes a photograph of a representative group of Jewel people who reflect the qualities which are implicit in the *Concepts*. For that reason we have chosen their photograph for the cover of this Report.

You may request a copy of the *Jewel Concepts* by writing to Robert D. Jones, Vice President, at our Corporate office.

Contents

Annual Meeting

Tuesday, June 7, 1983
10:30 a.m. Central Daylight Saving Time at
Harris Trust & Savings Bank
111 West Monroe Street
Chicago, Illinois

Corporate Office

O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631

Stock Listing

Common Stock:
New York Stock Exchange
Midwest Stock Exchange

Series A $2.31 Cumulative Convertible Preferred Stock:
New York Stock Exchange

Shareholders of Record

Common Stock
11,773

Series A $2.31 Cumulative Convertible Preferred Stock
1,802

Transfer Agent and Registrar

Manufacturers Hanover Trust Company
450 W. 33rd Street
New York, New York 10001

SEC Form 10-K

Copies of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge upon request to:

Robert F. Berrey,
Secretary
Jewel Companies, Inc.
5725 N. East River Road
Chicago, Illinois 60631

Jewel Companies, Inc.
Diversified Retailers

(In thousands except per share data)	1982	1981	Percent Change
Sales	**$5,571,721**	$5,107,614	9.1%
Earnings of U.S. Companies	**$ 64,227**	$ 52,066	23.4%
Gain on Sale of Aurrera Stock*	—	17,650	—
U.S. Earnings	**64,227**	69,716	(7.9)
Equity in Aurrera, S.A. de C.V.	**23,882**	31,954	(25.3)
Net Earnings	**$ 88,109**	$ 101,670	(13.3)%
Primary Earnings Per Common Share:			
Excluding gain on sale of Aurrera stock	**$ 6.82**	$ 6.50	4.9%
Gain on sale of Aurrera stock*	—	1.53	—
Net earnings	**$ 6.82**	$ 8.03	(15.1)%
Fully Diluted Earnings Per Share:			
Excluding gain on sale of Aurrera stock	**$ 6.07**	$ 5.81	4.5%
Gain on sale of Aurrera stock*	—	1.22	—
Net earnings	**$ 6.07**	$ 7.03	(13.7)%
U.S. Earnings as a Percent of Sales**	**1.15%**	1.02%	
Net Earnings as a Percent of Shareholders' Average Equity**	**15.6%**	16.1%	
Dividends Declared Per Common Share	**$ 2.48**	$ 2.24	
Average Common Shares Outstanding	**11,624**	11,554	

*Net of income taxes.
**Excludes gain on sale of Aurrera stock in 1981.

The Company uses the last-in, first-out (LIFO) method of inventory valuation for approximately 90% of its inventories. In certain explanatory sections of this Report first-in, first-out (FIFO) data is presented for comparison purposes.

For the fifth consecutive year, Jewel's sales and earnings were at record levels in 1982. In the fourth quarter, economic conditions in the United States and currency problems in Mexico began to catch up with the earnings pace of the first three quarters, thus preventing what would otherwise have been an even more outstanding year.

1982 Consolidated Results
Net earnings of $88,109,000 ($6.82 per share) increased 4.9% over 1981 earnings of $84,020,000 ($6.50 per share, not including a gain of $17,650,000 on the 1981 sale of some of the Company's stock in Aurrera, S.A. de C.V.). Fully diluted earnings per common share increased on the same basis from $5.81 to $6.07. Return on shareholders' equity in 1982 declined to 15.6% from 16.1% in 1981, principally because of reduced earnings from Aurrera.

United States Operations
Sales in the U.S. were $5,571,721,000, increasing 9.1% over 1981. U.S. net earnings amounted to $64,227,000, 23.4% better than 1981 (excluding the gain on Aurrera stock). The principal contributors to these results were Jewel Food Stores, which had an outstanding year in its Chicagoland market, and Osco Drug, whose sales and productivity programs produced another outstanding earnings gain.

The 1982 LIFO charge against net earnings amounted to $7,213,000 versus $9,609,000 in 1981. In the latter months of 1982 food prices were at times actually deflated and general merchandise prices only moderately inflated.

Following this letter, more detailed comments will describe the Company's operating results for the year.

The Company's U.S. earnings have grown at a compounded annual rate of 25.7% since 1977 on sales that grew at the rate of 11.8%. In this 5-year time period sales have grown from $3.2 billion in 1977 to $5.6 billion in 1982. Net earnings from U.S. operations increased from $20.5 million to $64.2 million. More than one half of the Company's 1982 sales were from drug stores and combination food/drug stores compared to less than one quarter of 1977 sales.

While the current economic outlook is uncertain, we think that the progress made by the Company's U.S. businesses in recent years offers the prospect that earnings growth from domestic operations will continue at an encouraging rate.

Aurrera, S.A. de C.V., Mexico
In another section of this Report you will find comments with respect to the 1982 operations of Aurrera.

Here we offer management's perspective about the Company's investment in Aurrera.

Over the past decade, Jewel has been well rewarded for its investment in Aurrera and in the burgeoning economy of Mexico. While we have both admired and appreciated the exceptional contributions of Jewel's partners in Mexico, it is clear that the abundance of the return was somewhat related to the growth in Mexico's gross national product created by the development of enormous oil resources and by the world's seemingly insatiable need for energy. What was in part a bonanza is no longer a bonanza.

Today the world faces a vastly different situation regarding the supply of and demand for energy resources. Just as Mexico became over extended and too dependent on its oil resources, so did world banking institutions and, in turn, world wide economies. Mexico was caught with huge debt and with a vastly over-valued currency. The country found itself with a myriad of problems, founded on expectations not met.

It is our view that Mexico's new President is a remarkably able and honest man whose leadership offers renewed hope for a resurgence in the country's economic strength. It will be neither easy nor painless but Mexico remains rich both in its natural and human resources and in its cultural values.

In summation, while we acknowledge the difficulties related to the decline in Jewel's earnings from its investment in Mexico, we remain confident of its future return.

Capital Investment

Jewel invested $167 million in property, plant and equipment in 1982, roughly broken out as follows:

	$(Millions)
For Combination Food/Drug Stores (new stores, plus conversion of supermarkets to combo units)	$70
For New Drug Stores	17
For New Convenience Food Stores	4
For Other New and Enlarged Stores	8
To Remodel Existing Stores, Including New Equipment	32
For Distribution and Manufacturing Facilities and Equipment	18
Other	18

Jewel continues to concentrate its investment in combination food/drug stores which appeal to a major segment of today's time-pressured consumers by presenting a wide range of everyday necessities and seasonal needs which can be purchased in one shopping trip. Combination stores eliminate inventory duplication and related investment in space and equipment. At the end of 1982, our supermarket and drug store companies were jointly operating 114 combination stores.

We are particularly pleased with the strength shown by combination stores in the Chicagoland market. Of Jewel's total 101 food and drug locations in the Chicago metropolitan area, 67 are now combination stores. Seven new combination stores and 10 conversions of existing locations to combination stores were completed in this market in 1982.

In keeping with Jewel's stated financial policies, 80% of its capital expenditures for 1982 were financed with internally generated funds. Net interest expense for the year was $33,754,000 compared to $35,644,000 in 1981. To reduce its exposure to the risk of higher short-term rates on seasonal borrowings, the Company in December 1982 sold $50 million of ten-year 11½% Notes.

It is our objective that funds be available for attractive investment opportunities. With this purpose in mind it is expected that our shareholders will be best served if the rate of future dividend increases, while higher than the general rate of inflation, is somewhat below the rate of earnings growth.

Retirement Programs
At a time of renewed concern for the unfunded pension liabilities of many employers, Jewel is more than ever pleased that the retirement needs of a majority of its employees are covered by profit sharing plans to which it contributes annually in amounts related to its earnings. These accumulated funds are held in a trust which is totally separate from the assets of the Company and permanently set aside for participating employees and retirees. In 1982, the accounts of Jewel profit sharing plan participants in the aggregate increased in value by 25% because of increased contributions and favorable investment results. By the nature of these plans, there are no unfunded liabilities.

Jewel People
Jewel people experienced successes as well as disappointments in 1982. Their efforts produced achievements which in the overall environment deserve a high rating. Each year, through Jewel's Annual Report, we attempt in some way to focus on Jewel people so that their many-faceted qualities are given credit. This year, the special section on Jewel Community Service depicts Jewel people giving of themselves to people in need, people for whom one Jewel volunteer makes a big difference. You will find this on page 12.

Key management changes during the year are shown on page 36. Additionally, at year end Robert L. Call retired as Chairman of Sav-On-Drugs and as a Director of Jewel. Mr. Call devoted 34 years to the successful growth of Sav-On and left it a legacy rich in human values. We are grateful for his important and unselfish contributions to the successful transition through which Sav-On has become one of the Jewel companies.

State of the Business—Outlook
Jewel is today a healthy company with a bright future. Capital is being carefully invested against clearly outlined strategic objectives. Productivity gains continue to be high on our work list. Jewel people are outstanding and they have good monetary as well as other incentives for achieving results of which we can all be proud. It will take some time for the Company's investment in Aurrera to return to high levels but, in the meantime, money which we've already earned on that investment will be producing good results.

While the outlook for the economy is never certain, we are encouraged by modest signs of recovery in many of Jewel's market areas and expect that stronger employment and business activity will improve consumer confidence and spending. Our drug stores should show good earnings gains based on the new store investment of recent years and the impact of productivity improvements now fully in place in Osco Drug and under way at Sav-On. In food retailing the industry will remain highly competitive but each of our supermarket companies is well placed in its market and in a sound position to meet new challenges. Our specialty businesses are expected to increase their contribution to Jewel's earnings.

Since we expect economic conditions to improve in the last half of 1983, we are planning for a year that will set new records as related to U.S. operations. Mexico's problems will not be quickly resolved and we therefore expect only modest contribution from Aurrera in 1983.

Thanks

For Jewel, 1982 was a year of good progress in the face of the most difficult economic environment experienced by Americans in 50 years. On behalf of the Board of Directors we thank the nearly 60,000 Jewel people whose accomplishments make us both proud and grateful. We also extend thanks to Jewel's millions of customers, whom we truly regard as the "boss." We remain grateful, too, to the thousands of individuals and companies providing Jewel with goods and services.

Once again we convey to our partners in Mexico our appreciation and respect along with our utmost confidence in the future.

Finally but importantly, we express our thanks to Jewel shareholders for their trust in what Jewel people are doing.

W. R. Christopherson

R. G. Cline

L. Howe

He started working for Jewel in 1953 as a route salesman, his first civilian job out of Harvard Business School. Twelve years later he was Jewel's President.

Don Perkins is retiring on June 7, 1983 as Chairman of the Executive Committee and as a Director. His remarkable achievements covering a span of 30 years cannot be easily chronicled. Nor is his character such as to allow his taking credit for what he would describe as the achievements of Jewel people for, above all, he has been a leader whose primary desire was to help others succeed.

Just as the Company's character was forever changed when, in 1932, the Jewel Tea Company purchased the Loblaw grocery stores in Chicago, so the next major shift was marked by Jewel's entry into general merchandise retailing. Don was one of the people principally involved in the acquisition of Osco Drug, Inc., and then in 1962 the development of the first food/drug combination store. One has only to read the report of Jewel's 1982 operations elsewhere in this Report to realize the significance of those earlier decisions.

Under Don's leadership, Jewel people continued to gain recognition as pioneers in innovations meant to benefit the consumer, doing for the customer what the customer had a right to expect, doing so inspired by his leadership.

Don Perkins caused people to try out new ideas, always knowing that some would succeed and others fail. The failures were pragmatically viewed as investments in research—something was learned. The successes added strength to Jewel.

Don is perhaps as positive a thinker as we know, a quality related to his absolute confidence in people without regard to race, creed, sex. Jewel people successfully serve inner city communities today because he insisted that it be done. Jewel today can be proud of a wonderful mixture of people—due in good measure to goals set by him.

He is retiring from Jewel at an unusually early age—first, because his talents enabled him to achieve the top while still young, and, second, because he believed that ten years as Chief Executive Officer was the appropriate tenure for him. He is "retiring" to a schedule of activities which includes being a director of 12 major corporations; trustee of the world's largest foundation, of a major university, and of a renowned research institute. He is committed to Chicago through a variety of endeavors. He is occupied, above all, as a family man.

As did his predecessors, Don Perkins added lustre to Jewel, made it the greater by his leadership. We are indebted; we are grateful.

Overall, Jewel's U.S. operations made good progress in 1982. Notably, our three largest companies—Jewel Food Stores, Osco Drug and Sav-On-Drugs—set new sales and earnings records as did two other Jewel companies.

Food and Drug

Drug Store Results

The combined pre-tax earnings of Osco and Sav-On in 1982 amounted to $58,825,000, a 30% increase over Jewel's drug store earnings of the prior year. Drug store sales of $1,668,562,000 were 14.7% more than in 1981.

The depressed economy which created an especially difficult environment for supermarkets was not quite so troublesome for chain drug stores. Inflation in drug store product categories, while lower than in 1981, did not moderate quite as much as in food, expense pressures were somewhat less, and the economy seems to have encouraged some consumers to shift purchases to chain drug stores from other channels of distribution perceived as less convenient or higher priced.

A strong increase in Osco Drug accounted for most of the earnings gain in Jewel's drug operations. Osco continued to make good gains in productivity and shared the savings, offering better prices to its customers. Their response produced record earnings through exceptionally strong sales. For the year, identical store sales increased 12%, compared to an internal inflation rate of about 4.4%. In total, Osco's sales were up 16% for the year. We expect that Osco's operating standards and management strengths will continue to produce superior results.

Despite 1982 pre-tax earnings which increased 12.6% over 1981 and were the highest in their history, Sav-On's results were below expectations. The recession, which had hit other regions of the country earlier, came with full force to California in the second half of 1982 and produced unemployment levels higher than the national average. Especially in the fourth quarter, there was a negative impact on consumer spending for seasonal and promotional merchandise, and sales were significantly behind the pace of the first half. The year also included start-up costs for new operating and distribution practices, most notably related to the expanded use of Sav-On's distribution center, a change we view as favorable for the long run.

The Presidents of Jewel companies.

Back row, left to right:
James H. Henson, Jewel Food Stores;
Richard E. George, Osco Drug;
David L. Diana, Eisner Food & Agency Stores;
Samuel J. Parker, Sav-On-Drugs.

Front row:
W. Bruce Krueger, Star Market;
Ronald J. Floto, Buttrey Food Stores.

Adjusting for these factors, Sav-On's earnings are essentially on target with the plans developed in 1980, and the underlying earnings momentum is stronger than the year-to-year comparisons suggest. We continue to view Sav-On as one of Jewel's most promising performance and growth opportunities.

Supermarket Results

Total 1982 pre-tax earnings of Jewel's four supermarket companies were 4.8% higher than in 1981. Sales increased 7.6%.

Generally poor economic conditions, coupled with food price inflation which slowed down more precipitiously than expense inflation, made the 1982 operating environment extremely difficult. Especially in the year's final quarter, consumers reacted to the country's economic problems and to worsening unemployment by cutting back on their food purchases. The Midwest economy, with its dependence on heavy industry and automotive manufacturing and on farming and related equipment and supply industries, was particularly hard hit as was the Northwest where lumber, mining and energy resource development were depressed.

Influenced by these factors as well as by more intense competitive conditions, the earnings of Buttrey Foods Stores and Eisner Food Stores were below the prior year. Star Market showed improvement over its 1981 results primarily as a result of better management of expenses, gross margins and assets.

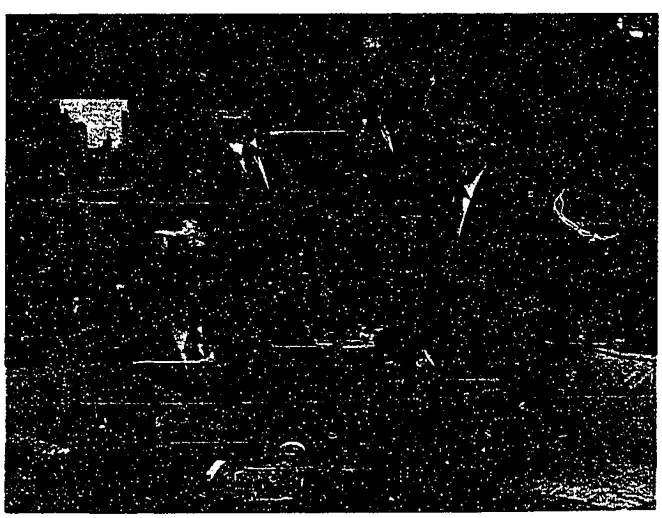
Despite the economy the earnings of our largest company, Jewel Food Stores, exceeded plans and were well ahead of 1981. A significant competitor closed most of its Chicagoland stores early in the year, helping Jewel's sales. New owners have now begun to reopen the stores which had been closed.

1982 was the Jewel Food Stores' 50th Anniversary. It was celebrated throughout the year with special events which contributed to the record sales and earnings. Jewel Food Stores people took their anniversary as an occasion to rededicate themselves to meaningful and productive customer satisfaction with programs and a spirit that will continue through coming years. Management strengths and operating conditions have seldom been better, and this business is in excellent shape to meet the challenges of 1983.

Consistent with our strategies, significant progress was made in 1982 in the growth and strengthening of our investment in food, drug and general merchandise retailing through the continued development of common check-out food/drug combination stores.

Left to right:

Ronald D. Peterson, Jewel T Discount Grocery;
Herman T. Landon, Park Corporation;
Robert G. Robertson, White Hen Pantry;
K. Lee Guse, Mass Feeding Corporation.




Softique
Bologna
Jewel
Jewel
Jewel
Kodak

Specialty Businesses

While food/drug operations comprise the principal source of Jewel's sales and earnings, we are also committed to the development of specialty businesses which fit our management strengths and resource capabilities.

In 1982, White Hen Pantry convenience food stores had a good year with pre-tax earnings increasing 19.3% over the prior year. Sales growth was also strong. Sixteen new stores opened and 275 were operating at year end. White Hen Pantry has an excellent history of consistent increases in its profitability and we will continue to allocate ample capital for its growth.

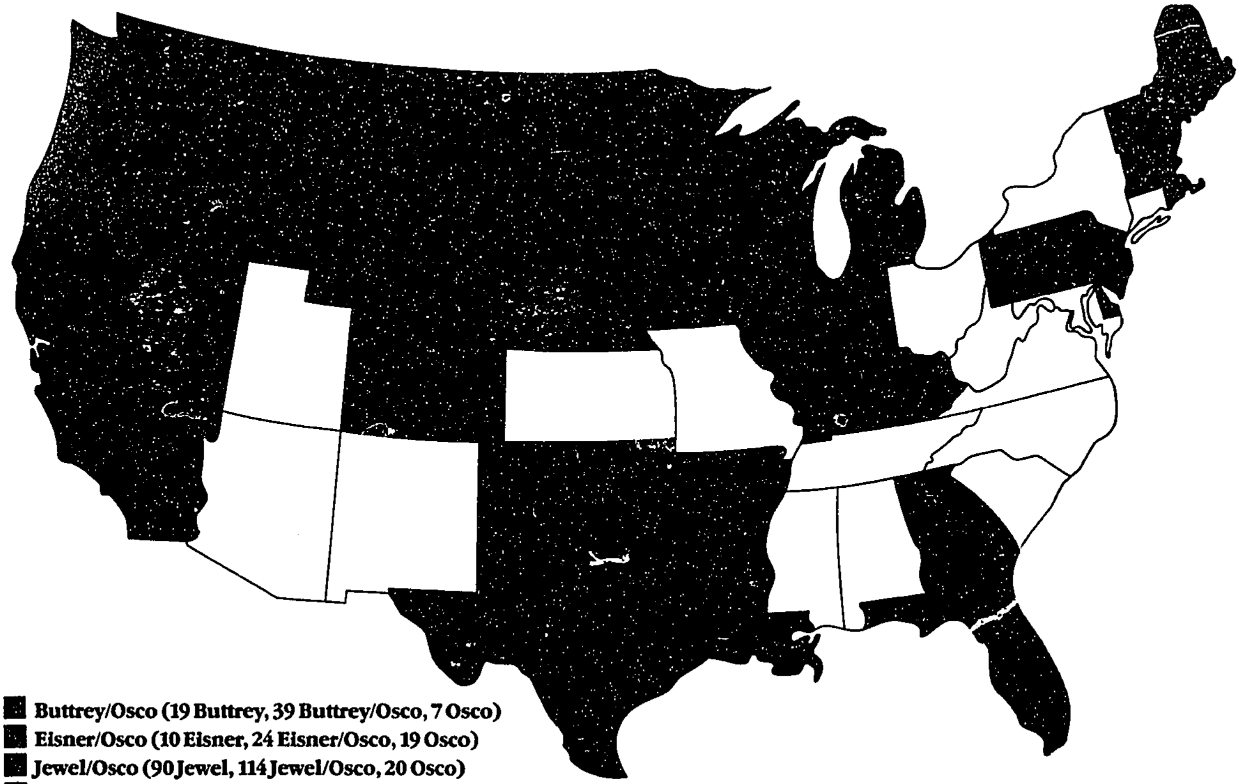
Mass Feeding Corporation's pre-tax earnings increased by 11.2% to record levels in 1982. Sales also achieved a new record and MFC continued to produce a superior return on investment, helped by excellent management of working capital. MFC's food service program offers value conscious elementary school administrators a cost effective way to provide nutritious and appealing meals to their students at attractive prices.

Park Corporation introduced new products to the institutional and restaurant buying associations it serves and sales increased over 1981. Good control over processing costs and investment helped Park to produce increased earnings of 36.3% and a significant gain in return on investment.

On 1982 sales of $313,053,000, Jewel T's net after-tax losses were $1,933,000 compared to 1981 losses of $2,705,000. During the fourth quarter, a number of stores which did not have good prospects were closed. Setting aside the closing costs and operating losses associated with the closed stores, Jewel T produced a profit in 1982's fourth quarter.

At the beginning of 1983, Jewel T was operating 140 stores compared to 161 a year earlier, overhead had been reduced to a level appropriate for a smaller business, and a decentralization of marketing activities which had begun earlier was fully in place. While we do not like 1982's losses, we could not be more positive about Jewel T people and their commitment to make our investment in this business productive. With a stable and smaller store base, Jewel T is projected to make a profit in 1983.

This customer's purchases demonstrate the wide range of food, health care and general merchandise products available in a Jewel combination food/drug store.



- Buttrey/Osco (19 Buttrey, 39 Buttrey/Osco, 7 Osco)
- Eisner/Osco (10 Eisner, 24 Eisner/Osco, 19 Osco)
- Jewel/Osco (90 Jewel, 114 Jewel/Osco, 20 Osco)
- Jewel T Discount Grocery (140 Stores)
- Osco (40 Stores)
- Sav-On-Drug Stores (174 Stores)
- Star/Osco (37 Star, 15 Star/Osco, 18 Osco)
- White Hen Pantry (275 Stores)

Company		Number of Stores: Beginning of Year	Opened	Closed	End of Year	Total Sq. Ft. (in thousands)	Affiliated Stores
Buttrey Food Stores	1982	54	4	0	58	1,505	
	1983 Plan	58	1	0	59	1,531	
Eisner Food & Agency Stores	1982	32	2	0	34	865	60
	1983 Plan	34	5	9	30	805	63
Jewel Food Stores	1982	207	8	11	204	6,609	
	1983 Plan	204	9	3	210	6,707	
Jewel T Discount Grocery	1982	161	6	27	140	1,401	
	1983 Plan	140	0	0	140	1,401	
Osco Drug	1982	285	23	12	296	5,387	
	1983 Plan	296	33	2	327	5,930	
Sav-On-Drugs	1982	164	13	3	174	4,673	
	1983 Plan	174	15	1	188	5,080	
Star Market Company	1982	52	0	0	52	1,622	17
	1983 Plan	52	1	0	53	1,675	29
White Hen Pantry	1982	262	16	3	275	693	
	1983 Plan	275	31	6	300	754	

Jewel's ownership of the stock of Aurrera, S.A. de C.V. continued at 36.1% during all of 1982.

Aurrera's business was strong in 1982 despite increasing cross currents of pressure within the Mexican economy. For the twelve months ended December 1982, its earnings in pesos exceeded the same period in the prior year by 54.49% on a 61.59% gain in sales. The 82.5% devaluation of the peso against the U.S. dollar during the year, however, resulted in Jewel's equity in Aurrera's increased peso earnings being translated at much lower rates. As a result, Jewel's equity in Aurrera's net earnings for the year was $23,882,000 compared to $31,954,000 in 1981.

Aurrera operates food and general merchandise discount stores, family apparel stores and restaurants in a number of formats. Highlights of Aurrera's 1982 and its plans for 1983 include the following:

- The Tiendas de Descuento (food and general merchandise discount stores) chain opened one unit in Mexico City in 1982. The chain now has 54 operating units, 46 of which are located in the Mexico City area and 8 of which are in other Mexican cities. These stores have a combined sales area of over two million square feet.
- The Suburbia apparel store chain added one unit in Mexico City. In the aggregate the chain's 10 units have over 700,000 square feet of sales area.
- The Vips restaurant chain added five new full-line units and six El Porton restaurants. There are now 45 full-line units, 16 El Portons, 18 ice cream shops and 2 specialty restaurants.
- Expansion plans for 1983 include five more discount stores, an eleventh Suburbia and seven new restaurants.

Mexico's reported annual inflation rate during 1982 was 98.87%. Major devaluations of the peso occurred in February and August, 1982 and in December the Mexican government allowed once more the free trading of currency with the peso leveling off thereafter in the range of .667¢.

Aurrera's balance sheet is strong, its sources of supply reliable, its marketing programs well adapted to Mexico's inflationary environment. The quality of Aurrera's management is outstanding.

At the currently depressed value of the peso, Jewel's equity in Aurrera's earnings in 1983 will be lower than in 1982. Our long-range confidence in Aurrera and in Mexico is unabated.

Aurrera people at work in Tiendas de Descuento (left and lower center); Suburbia apparel stores (upper center); and Vips restaurants (right).

While mindful of their primary responsibility to manage the Company's business for the benefit of its shareholders, Jewel people recognize a further obligation to society and to the communities in which we are privileged to do business. Our social environment is both rich in opportunity and beset with complex problems. In our view, the obligations of support and assistance falling to corporations are no longer debatable.

As retailers, and based solely on their own self-interest, companies such as Jewel have the most at stake in the social stability of communities in which they function and the most to lose from community failure. Jewel's leadership role is unavoidable.

Accordingly, Jewel attempts to be sensitive and responsive to all ways in which, through example, through material assistance, and through active leadership it can productively bring to bear its influence and support for the improvement of community life

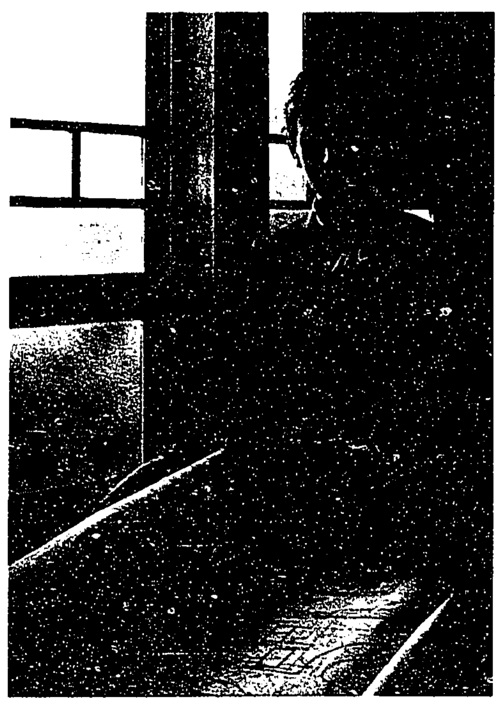
As a company, Jewel provides financial support to a wide variety of health, educational, cultural, civic and charitable organizations. Most of this support is channeled through the Jewel Foundation which is managed by a Board of Directors of eight Jewel people from different parts of the Company.

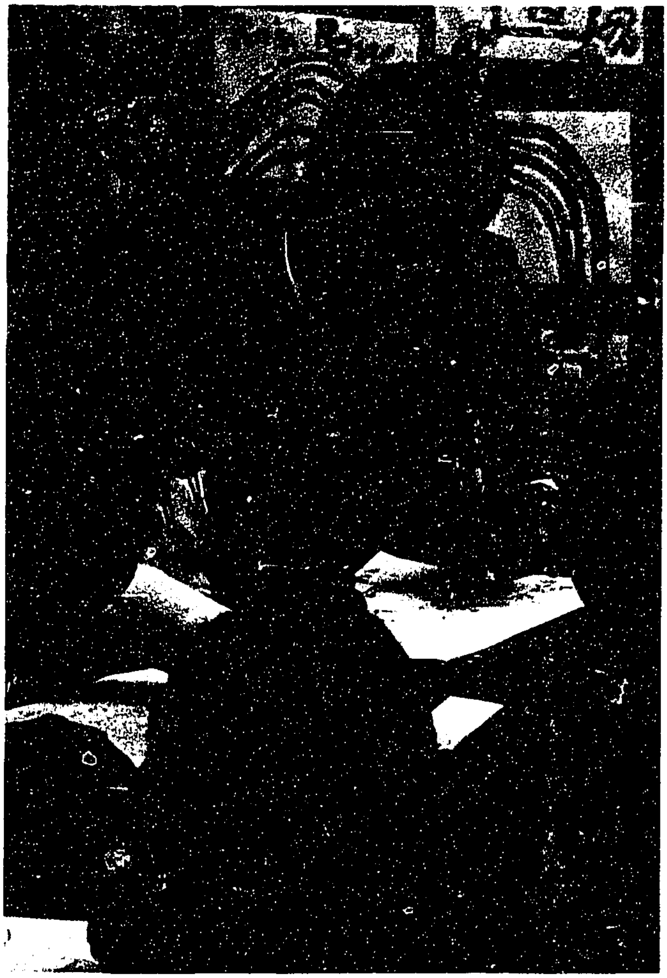
Currently, Jewel's financial contributions are at a level of more than 1.6% of Jewel's pre-tax domestic earnings. In an internal study conducted in 1982 it was determined that this level is well ahead of the national average for major corporations and probably appropriate under present conditions, although the Company's longer-range goal should be to increase its financial contributions to an amount equal to 2% of its pre-tax domestic earnings.

More importantly, Jewel encourages all of its people to volunteer for active and constructive roles in the affairs of the communities in which they work and live. The record of community service by Jewel people is remarkable although not susceptible to quantification.

Here are pictured a small sample of some of the community service activities that are characteristic of Jewel people everywhere.

Susan Irion Townsend is Consumer Services and Research Coordinator for Eisner Food Stores, headquartered in Champaign, Illinois. She serves as Chairman of the School Board at St. John's Lutheran Church and has been an active leader in the development and coordination of congregation plans for the opening of an elementary school, the community's first Lutheran school. Here she reviews site plans for the school.





Bob Howard is a District Manager in Osco Drug's Chicagoland Region. He is also an active member of the Board of Managers of the Chicago-Woodlawn Boys Club.

Bob has a special interest in the programs of Chicago-Woodlawn. While attending high school, he was a Club member and learned from personal experience of the Club's positive contributions to the Woodlawn community. Here he visits a Club arts and crafts class.

Ed Van Tighem is a Buttrey store manager in Great Falls, Montana. Since 1977 Ed has been President of the Montana Association for the Deaf.

As a personal project Ed rebuilds and modifies discarded Teletype machines, installing them in the homes of deaf people who can then send and receive messages by this unique system. There are now 60 such installations in Montana, 30 in Great Falls.

Rocco Colletti is Jewel Food Stores Manager of Sales Development, Manufacturing. He serves on the Board of Directors of the Ray Graham Association for the Handicapped, the largest organization in the country dedicated to providing job training, preparation for independent living and financial assistance for children and adults who are developmentally disabled. He is shown here visiting the Association's packing facility in Addison, Illinois.

Jewel people continue to make commendable progress toward achievement of the Company's strategic goals, which are to:

• Further shift the Company's sales mix toward store types and businesses which enhance net margins and growth prospects.

• Further diversify geographically so as to minimize Jewel's dependency on any one metropolitan area.

• Invest in specialty businesses, particularly those which are augmented in one way or another by our food and drug operations, our human strengths, and our manufacturing and distribution capabilities.

• Pursue productivity gains, through the timely application of technological advancement and improved human skills.

It also continues to be the Company's objectives (a) to make acquisitions of quality companies in furtherance of the above strategies and (b) to reduce our investment in assets which do not hold the promise of creating value.

1983-85 Plans

In this three-year time period the Company's plans are to invest a total of $464 million in those operations which currently comprise Jewel. These capital expenditures are about evenly spread over the three years.

Highlights of the Plan include:

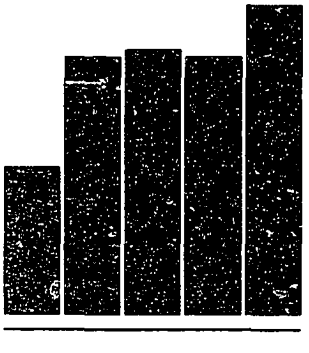
• $364 million will be spent on retail facilities of which 54% is for combination food/drug stores, adding 87 such units for a total of 201 by the end of 1985. Included in the plan is capital with which to build a number of combination food/drug stores in California, starting in the San Joaquin Valley. Development of these stores, the first of which will be opened later this year, has been assigned to the Sav-On management team which will include an appropriate number of seasoned management people transferred from our supermarket companies.

• An additional 14% of the capital for retail facilities will be allocated to solo drug stores in already established markets.

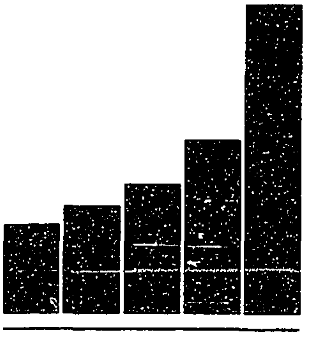
• Essentially no capital will be spent to build solo supermarkets—rather, our substantial investment in supermarkets will be in connection with the combination store format.

• 23% of the retail facilities capital will go to remodel stores and replace obsolete equipment.

Drug Stores
(excluding combination format)
number of units



Food/Drug Combination Units
number of units



- About 12% of the total capital is reserved for opportunities yet to be specifically identified.
- Increasing amounts will be invested in our relatively new geographic areas, thus spreading the Company's geographic dependencies into population growth areas.
- A total of 319 new stores of all types are in the plan, plus 19 enlargements and 31 stores converted from supermarkets to combination food/drug units.
- The three-year plan will be financed primarily with internally generated funds.

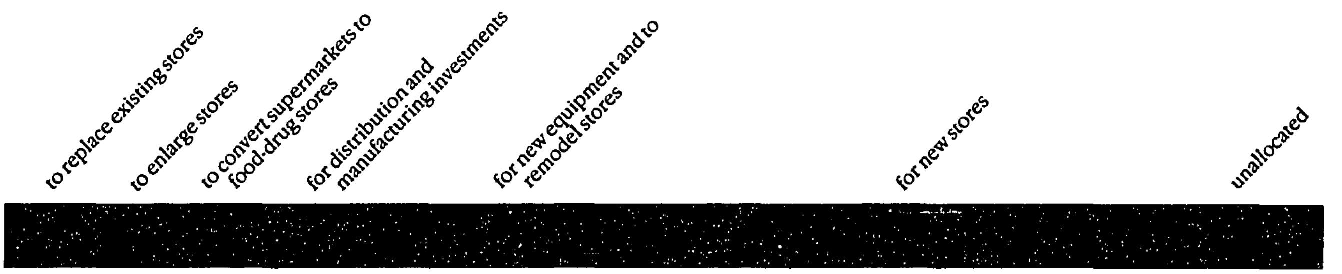
1985 Targets

These plans (not including acquisitions) are intended to produce results in 1985 as follows: Sales will approach $8 billion, 40% greater than in 1982. U.S. earnings will have increased at a somewhat greater rate than sales. Approximately 85% of U.S. earnings will come from drug stores and from combination food/drug stores, compared with 74% in 1982.

The Years Beyond

As always, fresh winds are blowing on the retail scene. Price is a more important point on the value spectrum than seemed true during most of the 1970's. Thus, price dominant retailing presentations, ranging from off-price general merchandise stores to warehouse-type food outlets, seem to be gaining popularity. Segmentation of retailing into specialty outlets continues to proliferate. The dynamics of electronics—as a technology to be applied to traditional retailing, as a source of new product lines, and as a base for developing new retailing ventures—will substantially influence the marketplace. Most retailers are quite likely facing an era in which concentration will produce better returns than will expansion. Making existing assets more productive will be more important than the race for additional square footage.

These influences, and others, will help to shape Jewel's plans for the years ahead.



1983-1985 Investments for All Purposes
$464 million total

1983-1985 Investments in Retail Facilities
$364 million total

1983-1985 Investments for All Purposes by Region
$464 million total

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the Company's consolidated financial statements, including the related notes. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and necessarily include some amounts that are based on management's best estimates and judgments.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance at reasonable cost that Company assets are adequately protected, transactions are executed in accordance with management's authorization and financial records are reliable as a basis for preparation of financial statements. The system of controls includes careful selection and training of financial management personnel, delegation of authority and division of responsibility, dissemination of formal accounting and business policies, and an internal audit program to monitor the effectiveness of the control system. While there are limits inherent in all systems of internal accounting control based on the recognition that the cost of such systems should not exceed the benefits to be derived, management believes the Company's system provides this appropriate balance.

The Company has distributed to key employees its policies for conducting business affairs. Management believes that the policies and procedures provide reasonable assurance that its operations are transacted in conformity with the law and consistent with high ethical standards. At regular times during the year, the Company's internal and external auditors meet privately with the Chairman of the Board and the President to review their audit work, the Company's internal controls and financial reporting matters.

The Company's financial statements have been examined by Touche Ross & Co., independent certified public accountants. Their examination was made in accordance with generally accepted auditing standards and included a review of the internal accounting control systems.

The Board of Directors, acting through its Audit Committee comprised solely of outside directors, oversees the fulfillment by management of its responsibilities in the preparation of financial statements and financial control of operations. The Audit Committee recommends the selection of the Company's independent public accountants. In 1982, the Committee met four times and reviewed the scope, timing and cost of the Company's internal and external audit programs as well as the results of audit examinations completed by the Company's internal and external auditors. The Company's independent public accountants and internal audit department have full and free access to the Audit Committee.

W. R. Christopherson
Chairman of the Board and Chief Executive Officer

L. Howe
Vice Chairman and Chief Financial Officer

Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors,
Jewel Companies, Inc.

We have examined the consolidated statements of financial position of Jewel Companies, Inc. as of January 29, 1983 and January 30, 1982 and the related statements of earnings, retained earnings and changes in financial position for each of the three fiscal years in the period ended January 29, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of Aurrera, S.A. de C.V., a Mexican company in which Jewel has a 36.1% interest at January 29, 1983. The consolidated financial statements of Aurrera, S.A. de C.V. for each of its three fiscal years in the period ended July 31, 1982 were examined by other independent auditors whose unqualified report thereon has been furnished to us.

In our opinion, which as to amounts with respect to Aurrera, S.A. de C.V. for each of its three fiscal years in the period ended July 31, 1982 is based on the report of other independent auditors described above, the financial statements referred to above present fairly the consolidated financial position of Jewel Companies, Inc. as of January 29, 1983 and January 30, 1982, and the results of its operations and the changes in its financial position for each of the three years in the period ended January 29, 1983, in conformity with generally accepted accounting principles consistently applied during the period except for the change in 1981, with which we concur, in the method of translating foreign currency financial statements as described in the Notes to Financial Statements.

TOUCHE ROSS & CO.
Chicago, Illinois
March 19, 1983

The following is an analysis of the major factors contributing to the change in primary earnings per share from continuing operations for 1982 compared to 1981 and 1981 compared to 1980:

	Increase (Decrease)	
	1982 vs. 1981	1981 vs. 1980
Earnings from U.S. operations:		
Drug stores	$ .58	$1.00
Supermarkets	.10	.21
Other operations	.19	.04
Unallocated—net	.04	(.30)
Total	.91	.95
Gain on sale of Aurrera stock	(1.53)	1.53
Effective income tax rate	.04	(.04)
Tax credits	.11	.21
U.S. earnings	(.47)	2.65
Equity in Aurrera	(.70)	.61
Increase in preferred dividends	—	(.59)
Increase in common shares outstanding	(.04)	(.10)
(Decrease) increase in earnings per common share from continuing operations	$(1.21)	$2.57

1982 Compared to 1981

Consolidated net earnings for the 1982 fiscal year ended January 29, 1983 were $6.82 per common share. This compares to consolidated net earnings in 1981 of $6.50 per common share (excluding a gain of $1.53 per share from the sale of shares of Aurrera in 1981). The improved results were achieved despite a substantially reduced equity in the earnings of Aurrera, S.A. de C.V. (Mexico).

Total sales for the 1982 fiscal year increased 9.1% over the 1981 fiscal year. Sales in identical store units were 5.6% higher than in 1981. The increase in 1982 includes an indeterminable effect of inflation.

Earnings from U.S. operations in fiscal 1982 contributed an additional $.91 per share to net earnings (excluding the gain from the sale of shares of Aurrera in 1981). Earnings of the Company's drug stores were ahead of the prior year and contributed an additional $.58 per share to net earnings. Osco had a sales gain for the year of 16.0% and its pre-tax earnings increased 41.9%. Sav-On had a pre-tax earnings gain of 12.6% on sales which increased 13.1% over the prior year. 55.8% of the Company's pre-tax earnings were from drug stores.

The combined earnings of the Company's four supermarket chains contributed an additional $.10 per share to net earnings. Jewel Food Stores showed a 33.6% increase in pre-tax earnings, partly as a result of a major competitor having withdrawn from the Chicagoland market. However, the results of Buttrey Food Stores and Eisner were substantially below 1981 in each case as a result of depressed economic conditions causing food retailers in their respective market areas to seek more business through aggressive pricing. Star Market showed improvement over its 1981 results.

Earnings of the Company's other businesses were up compared to 1981 and contributed an additional $.19 per share to net earnings. The net after-tax losses of Jewel T were $.17 per share in 1982 compared to $.24 per share in 1981. White Hen Pantry, Mass Feeding Corporation and Park Manufacturing exceeded their prior year's earnings by 19.3%, 11.2% and 36.3%, respectively.

Unallocated general corporate expenses and miscellaneous income increased 1982 earnings $.04 per share. The increase in 1982 includes the proceeds of a one time sale of option rights related to the stock of another company, partially offset by higher general corporate expenses.

Higher tax credits contributed an additional $.11 per share to net earnings, reflecting increased construction activity.

Aurrera, S.A. de C.V., Mexico's leading private sector retailer in which Jewel has a 36.1% interest, performed well in 1982, with each of its businesses achieving substantial growth in the highly inflationary Mexican economy. Aurrera sales during Jewel's fiscal year increased 61.6%. However, with the annual average effective rate of translation for the peso decreasing from 4.04 cents in 1981 to 1.58 cents in 1982, Jewel's earnings from its equity investment in Aurrera were 25.3% below the 1981 level and this reduced Jewel's net earnings by $.70 per share in 1982. See the Notes to Financial Statements for a further discussion.

An increase in the average number of common shares outstanding during the year decreased net earnings $.04 per share in 1982.

Review of Financial Condition and Financial Policies

Working Capital

The Company's working capital was $132,586,000 at January 29, 1983 compared with $147,526,000 at January 30, 1982 and $162,050,000 at January 31, 1981. The working capital at these dates reflects LIFO inventory reserves of $55,150,000, $40,735,000 and $21,542,000, respectively. The Company's current ratio was 1.3 on a LIFO basis at January 29, 1983 compared with 1.4 at January 30, 1982 and January 31, 1981. On a FIFO basis the Company's current ratio was 1.4 at January 29, 1983 compared with 1.5 at the end of the prior two years.

Capital Assets

The Company invested more than $167 million in new capital assets in 1982 compared with $126 million in 1981 and $92 million in 1980. During the past three years, the Company has financed approximately 85% of its investment in new capital assets from internally generated funds. In addition, in December 1982 the Company sold $50 million of ten-year 11½% Notes. As of 1982 year end, outstanding capital expenditure commitments related to stores under construction were in amounts consistent with plans.

The Company plans to invest $464 million in capital assets (including investments of the Company's Real Estate Affiliates described below) during the next three years, financed primarily by internally generated funds. The Company's forward investment plans and financial projections are made in three-year time frames. Individual capital expenditure decisions are based on conformity with such long-range plans, evaluation of business and investment opportunities and alternatives, and measurement against discounted cash flow standards designed to ensure that Company financial objectives are attained. Thereafter, actual unit performance is reviewed against the projections which were utilized in the analysis to support the expenditure decisions.

Debt Ratios

At January 29, 1983 the consolidated debt to total capital ratio was 38.0% compared with 37.7% at January 30, 1982 and 40.9% at January 31, 1981. Excluding the debt of the Real Estate Affiliates and the impact of capitalized leases, the debt to total capital ratio was 23.3% at January 29, 1983 compared with 24.2% at January 30, 1982 and 27.6% at January 31, 1981.

The Company expects that its long-term debt will not generally exceed 33⅓% of total capital, excluding Real Estate Affiliate debt and capitalized leases. If real estate debt and capitalized leases are included, long-term debt will ordinarily not exceed 45% of total capital.

Financing

The Company will continue to finance its growth with funds internally generated from earnings and depreciation, supplemented by periodic borrowings. Long-term debt will be employed as required and seasonal working capital needs will be met through bank credit lines and commercial paper, with the overall purpose being to minimize the cost of funds and retain access to a variety of funding sources.

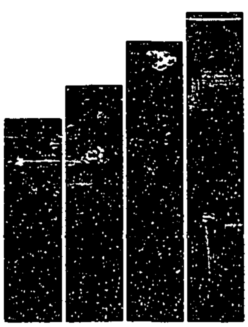
It is the Company's policy to ensure that its fixed charges (interest on indebtedness and minimum rentals) are adequately covered by its earnings. To protect its flexibility and access to capital markets in the financing of future growth and to assure its ability to weather any periods of restricted credit, it is the Company's objective to maintain a level of fixed charge coverage as well as other financial standards adequate for an "A" credit rating for its long-term debt.

Lines of credit ($46 million at January 29, 1983) and a revolving credit agreement ($106 million at January 29, 1983) are maintained with commercial banks to ensure the availability of adequate funds to meet seasonal needs, to support the sale of commercial paper and to provide additional liquidity if needed. At January 29, 1983 no borrowings were outstanding under either the revolving credit agreement or open lines of credit. At January 29, 1983 $12,265,000 of notes that were outstanding and supported by the above agreements were classified as long-term debt based on the Company's expectations that short-term borrowings averaging in excess of this amount will be outstanding during the forthcoming year.

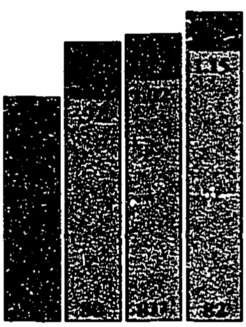
For many years the Company has followed a practice of selective real estate ownership of stores and support facilities through Real Estate Affiliates using separate long-term financing. In these transactions, based upon a lease to Jewel Companies, Inc., individual affiliated real estate corporations borrow up to 99% of the cost of land and buildings; the loan is scheduled to be fully paid out of the rents received from Jewel during the fixed term of the lease, generally 20 years. This policy has resulted in the Company's ownership of a higher percentage of its retail properties than is usual in its sectors of retailing.

In general, the Company considers the ownership of real estate attractive because it allows maximum flexibility in the use of the property, results in lower financing costs, eliminates contingent rents and retains residual values. Although many retail sites are available only on a lease basis, the Company owns approximately 49% of the square footage that it utilizes.

U.S. Sales[1]
in billions of dollars

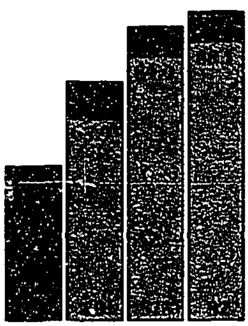


Return on U.S. Sales[1]
percentages

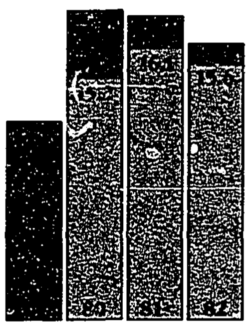


■ FIFO ■ LIFO

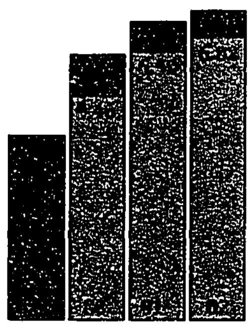
Net Earnings—Consolidated[1]
in millions of dollars



Return on Equity[1]
percentages



Earnings Per Share[1]
in dollars



[1]Continuing operations
[2]Excludes gain on Aurrera stock sale

1981 Compared to 1980

The Company achieved record results for its 1981 fiscal year which ended January 30, 1982. Consolidated net earnings were $8.03 per share, including a gain of $1.53 per share from the sale of 20 million shares of stock of Aurrera, S.A. de C.V., compared to consolidated net earnings from continuing operations in 1980 of $5.46 per common share.

Total sales for the 1981 fiscal year increased 19.7% over the 1980 fiscal year. Including the sales of Sav-On-Drugs, Inc., which was acquired in November 1980, in the prior year comparison, sales in 1981 were 9.0% higher than in 1980. Sales in identical store units were 6.5% higher than in 1980. The increase in 1981 includes an indeterminable effect of inflation.

Earnings from U.S. operations in fiscal 1981 contributed an additional $.95 per share to net earnings. The earnings of the Company's drug stores were strongly ahead of 1980 and contributed an additional $1.00 to net earnings. The Osco drug stores had a sales gain of 13.2%. With strict attention to expense management, Osco achieved excellent gains in earnings. Sav-On-Drugs, Inc. had a year of successful transition into the Jewel organization; the sales gain of 14.4% was as planned, with earnings also on plan. 53.7% of Jewel's total earnings before income taxes in 1981 were from drug stores compared with 36.1% in 1980.

Combined earnings of the Company's four supermarket chains contributed an additional $.21 per share to net earnings. Jewel Food Stores and Eisner Food Stores recorded strong gains and Buttrey's results were also ahead of the prior year. In the face of vigorous price competition in the Boston area, Star's results were substantially lower than in 1980.

Earnings of the Company's other businesses were up compared to 1980 and increased net earnings $.04 per share. The increase includes a reduction in the net after-tax losses of the Jewel T Discount Grocery store network from $.29 per share in 1980 to $.24 per share in 1981. White Hen Pantry's convenience stores increased both sales and earnings about as planned. Mass Feeding Corporation had a record year. Park Corporation modestly exceeded its prior year earnings. Brigham's, which was disposed of in 1982, operated at a loss.

Unallocated general corporate expenses and miscellaneous income decreased 1981 earnings $.30 per share reflecting higher general corporate expenses in 1981. Also, 1980 included an after-tax gain of $.07 per share from the Company's sale of shares of Pay Less Drug Stores.

During the second quarter of 1981, the Company sold 20 million shares of the stock of Aurrera, S.A. de C.V., thus reducing its equity position to 36.1% from 41.7% as of January 31, 1981. The gain on the sale of Aurrera stock contributed an additional $1.53 per share to 1981 earnings.

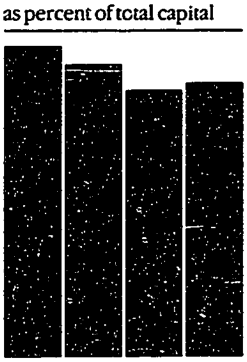
Higher targeted job and investment tax credits contributed an additional $.21 per share to 1981 net earnings.

Operations of Aurrera, S.A. de C.V., in which the Company now has a 36.1% equity interest, continued strong with each of its businesses achieving substantial growth. Aurrera sales during Jewel's 1981 fiscal year increased 49.4%. Jewel's equity in Aurrera's earnings was 30.9% higher than in 1980, which is a lower rate of growth than in earlier years primarily as a result of its sale of 20 million Aurrera shares during the year and the gradual decline of 12% in the value of the peso which occurred during 1981. During 1982 there were significant developments in the Mexican economy and they are addressed in the 1982 discussion of operating results and in the Notes to Financial Statements.

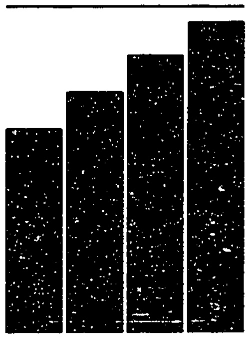
The preferred dividend requirements of the Series A $2.31 cumulative convertible preferred stock issued in connection with the acquisition of Sav-On-Drugs, Inc. in November 1980 decreased net earnings applicable to common stock by $.59 per share in 1981.

An increase in the average number of common shares outstanding during the year decreased net earnings $.10 per share in 1981.

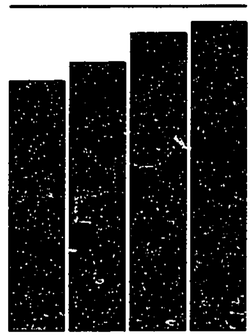
Long-Term Debt[3]
as percent of total capital



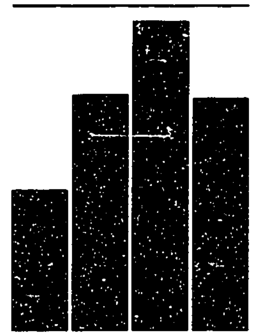
Dividends Declared Per Common Share
in dollars



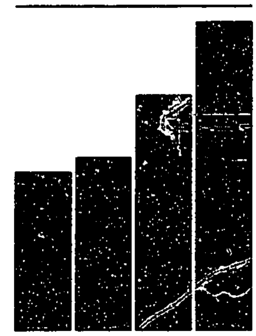
Equity Per Common Share
in dollars



Equity in Aurrera Earnings
in millions of dollars



Capital Expenditures
in millions of dollars



[3]Including Real Estate Debt and Capitalized Leases

Principles Applied in Consolidation
The consolidated financial statements include the accounts of Jewel Companies, Inc., its wholly-owned subsidiaries and its affiliated real estate corporations. All significant intercompany transactions are eliminated.

Inventories
Inventories are valued at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine the cost for approximately 90% of inventories. Cost for the balance of the inventories is determined on a first-in, first-out (FIFO) or weighted average basis.

Investment in Aurrera, S.A. de C.V.
The Company's investment in Aurrera, S.A. de C.V. (Mexico), 36.1% owned as of January 29, 1983 and January 30, 1982, is carried at cost plus equity in undistributed earnings since its acquisition in 1969. All foreign currency translations have been accounted for in 1982 and 1981 in accordance with Statement of Financial Accounting Standards No. 52.

Land, Buildings and Equipment
Land, buildings and equipment are stated at cost and include certain assets acquired through the use of long-term lease obligations. Depreciation is computed on the straight-line method for financial statement purposes and on accelerated methods for tax purposes. Leasehold improvements and capital leases are amortized over the shorter of estimated physical life or the term of the lease. Useful lives average 32 years for buildings, 15 years for leasehold improvements, 10 years for equipment and 3-6 years for transportation equipment.

The cost of land, buildings and equipment is eliminated from the accounts at the time assets are sold or retired. Differences between net book value and proceeds on normal equipment dispositions are recorded in the accumulated depreciation account. Gains and losses on the disposition of land and buildings are reflected in the statement of earnings.

Income Taxes
The Company recognizes investment tax credits as a reduction of federal income tax expense in the year in which the related assets are placed into service.

Pre-opening Costs
Pre-opening costs are charged to expense as incurred.

Statements of Earnings

Jewel Companies, Inc.

(In thousands except per share data)	52 Weeks Ended Jan. 29, 1983	52 Weeks Ended Jan. 30, 1982	52 Weeks Ended Jan 31, 1981
Sales	**$5,571,721**	$5,107,614	$4,267,922
Costs of Doing Business:			
Cost of goods sold	**4,430,466**	4,067,853	3,435,838
Selling, general and administrative expenses	**1,002,017**	919,914	742,052
	5,432,483	4,987,767	4,177,890
Operating Earnings	**139,238**	119,847	90,032
Gain on Sale of Aurrera Stock	—	27,285	—
Interest Income	**4,101**	4,377	3,314
Interest Expense:			
Jewel Companies, Inc.	**(25,173)**	(29,025)	(19,415)
Real estate affiliates	**(12,682)**	(10,996)	(10,897)
Earnings of U.S. Companies From Continuing Operations Before Income Taxes	**105,484**	111,488	63,034
Income Taxes	**41,257**	41,772	23,586
Earnings of U.S. Companies From Continuing Operations	**64,227**	69,716	39,448
Equity in Aurrera, S.A. de C.V.	**23,882**	31,954	24,416
Earnings From Continuing Operations	**88,109**	101,670	63,864
Loss From Discontinued Operation, Net of Income Taxes	—	—	(8,654)
Net Earnings	**$ 88,109**	$ 101,670	$ 55,210
Primary Earnings Per Average Common Share Outstanding:			
Earnings from continuing operations	**$ 6.82**	$ 8.03	$ 5.46
Loss from discontinued operation	—	—	(.76)
Primary Earnings Per Share	**$ 6.82**	$ 8.03	$ 4.70
Fully Diluted Earnings Per Share:			
Earnings from continuing operations	**$ 6.07**	$ 7.03	$ 5.25
Loss from discontinued operation	—	—	(.71)
Fully Diluted Earnings Per Share	**$ 6.07**	$ 7.03	$ 4.54

Statements of Retained Earnings

(In thousands except per share data)	52 Weeks Ended Jan. 29, 1983	52 Weeks Ended Jan. 30, 1982	52 Weeks Ended Jan. 31, 1981
Balance, Beginning of Year	**$ 395,554**	$ 328,795	$ 297,553
Net Earnings	**88,109**	101,670	55,210
Cash Dividends Declared:			
3¾% preferred stock—$3.75 per share	**(4)**	(10)	(30)
Series A preferred stock—$2.31 in 1982 and 1981; $.56 in 1980	**(8,882)**	(8,898)	(2,161)
Common stock—$2.48 in 1982; $2.24 in 1981; $1.92 in 1980	**(28,813)**	(26,003)	(21,777)
Balance, End of Year	**$ 445,964**	$ 395,554	$ 328,795

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Jewel Companies, Inc.

(In thousands)	January 29, 1983	January 30, 1982
Assets		
Current Assets:		
Cash	$ 29,022	$ 23,505
Short-term investments	9,700	8,768
Accounts receivable	54,538	52,118
Inventories	474,362	453,831
Prepaid expenses and other	23,572	23,941
Total current assets	591,194	562,163
Investment in Aurrera, S.A. de C.V.	58,052	67,287
Land, Buildings and Equipment, net:		
Jewel Companies, Inc.	567,400	510,422
Real estate affiliates	212,114	190,723
Total land, buildings and equipment	779,514	701,145
Notes Receivable from Exercise of Stock Options	8,185	9,321
Excess of Cost over Net Assets Acquired	18,431	18,942
Other Assets	19,429	21,013
	$1,474,805	$1,379,871

Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 202,326	$ 194,866
Payrolls and other accrued expenses	219,675	198,678
Income taxes payable	16,825	5,885
Current maturities of long-term debt:		
Jewel Companies, Inc.	11,371	7,384
Real estate affiliates	8,411	7,824
Total current liabilities	458,608	414,637
Long-Term Debt, less current maturities:		
Jewel Companies, Inc.	220,268	215,696
Real estate affiliates	133,289	120,778
Deferred Income Taxes	59,965	47,064
Other Deferred Liabilities	26,436	25,946
Shareholders' Equity:		
Preferred stock—3¾% cumulative $100 par value—authorized and issued 10,500 shares	1,050	1,050
Series A preferred stock—$2.31 cumulative convertible—$1 par value—authorized 5,000,000 shares, issued 3,842,806 shares at January 29, 1983 and 3,849,761 shares at January 30, 1982	95,937	96,111
Common stock—$1 par value—authorized 50,000,000 shares, issued 11,698,623 shares at January 29, 1983 and 11,686,736 shares at January 30, 1982	85,387	85,853
Retained earnings	445,964	395,554
Foreign currency translation adjustment	(48,248)	(21,642)
Treasury stock, at cost	(3,851)	(1,176)
Total shareholders' equity	576,239	555,750
	$1,474,805	$1,379,871

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Jewel Companies, Inc.

(In thousands)	52 Weeks Ended Jan. 29, 1983	52 Weeks Ended Jan. 30, 1982	52 Weeks Ended Jan. 31, 1981
Funds Provided by (Used for) Operating Transactions			
Continuing operations:			
Earnings	**$ 88,109**	$101,670	$ 63,864
Charges and (credits) not affecting funds:			
Depreciation and amortization	**79,194**	72,920	61,814
Deferred taxes and other deferred liabilities	**13,391**	1,674	(472)
Undistributed equity in Aurrera, S.A. de C.V.	**(18,870)**	(22,331)	(16,728)
Total funds provided by continuing operations	**161,824**	153,933	108,478
Loss from discontinued operation, net of depreciation	**—**	—	(7,384)
(Increase) decrease in working capital:			
Accounts receivable	**(2,420)**	(10,113)	(1,356)
Inventories	**(20,531)**	(26,832)	(13,844)
Prepaid expenses and other	**369**	1,842	2,102
Accounts payable	**7,460**	25,690	(22,470)
Payrolls and other accrued expenses	**20,997**	17,229	33,244
Income taxes payable	**10,940**	396	1,156
Current maturities of long-term debt	**4,574**	599	(205)
Total change in working capital	**21,389**	8,811	(1,373)
New land, buildings and equipment:			
Jewel Companies, Inc.	**(139,599)**	(108,459)	(79,261)
Real estate affiliates	**(27,648)**	(17,724)	(13,154)
Disposals of land, buildings and equipment	**10,185**	4,846	9,678
Cost of Aurrera stock sold	**—**	9,715	—
Net assets of discontinued operation	**—**	—	14,083
Other	**4,229**	(15,315)	(4,478)
Net Funds Provided by Operating Transactions	**30,380**	35,807	26,589
Funds Provided by (Used for) Financial Transactions			
Acquisition of Sav-On-Drugs, Inc.:			
Working capital	**—**	—	(42,066)
Property, intangibles and other	**—**	—	(101,394)
Preferred stock issued for Sav-On-Drugs, Inc.	**—**	—	96,269
Dividends to shareholders	**(37,699)**	(34,911)	(23,968)
Sale of common stock under stock option and purchase plans	**1,220**	6,727	5,229
Acquisition of treasury stock	**(4,535)**	(624)	(52)
Repayment of long-term debt:			
Jewel Companies, Inc.	**(7,943)**	(25,911)	(9,178)
Real estate affiliates	**(8,593)**	(8,948)	(9,087)
Net Funds Used for Financial Transactions	**(57,550)**	(63,667)	(84,247)
Total Funds Used	**$(27,170)**	$(27,860)	$(57,658)

Net Borrowings and Change in Cash			
(Decrease) increase in:			
Cash	**$ 5,517**	$ 5,652	$ (5,946)
Short-term investments	**932**	(11,365)	9,347
Increase in long-term debt:			
Jewel Companies, Inc.	**(12,515)**	(11,082)	(56,761)
Real estate affiliates	**(21,104)**	(11,065)	(4,298)
Total Net Borrowings and Change in Cash	**$(27,170)**	$(27,860)	$(57,658)

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Foreign Currency Translation

During 1981 the Company changed its accounting for foreign currency translations in accordance with Statement of Financial Accounting Standards No. 52. Using FASB Statement No. 52 rather than FASB Statement No. 8 resulted in higher equity in the net earnings of Aurrera for 1981 of $3,465,000 or $.30 per Jewel common share. At the time this Statement was adopted, the economy of Mexico was not considered to be highly inflationary, and pursuant to the requirements of FASB Statement No. 52 all foreign currency translation adjustments in 1981 and in the first quarter of 1982 were charged to shareholders' equity. Due to increasing inflation in Mexico during the second quarter of 1982, Jewel changed its translation procedures to account for Aurrera under the highly inflationary accounting rules of FASB No. 52, under which translation adjustments are included with current earnings.

Foreign currency translation adjustments charged to shareholders' equity prior to the adoption of the highly inflationary accounting rules were $14,240,000 as of February 1, 1981, $7,402,000 for fiscal year 1981 and $26,606,000 for the first quarter 1982. Since the second quarter 1982, foreign currency translation gains in the amount of $2,137,000 have been included with the Company's equity in the earnings of Aurrera. Earnings statements have not been restated for the years prior to the adoption of FASB No. 52 in 1981 because the effect is immaterial.

During 1982 there was substantial devaluation of the Mexican peso and disruption in the Mexican economy and financial markets. At 1982 year end the value of the peso was .667 cents compared with 3.81 cents at 1981 year end. As a result, the Company's equity in the earnings of Aurrera declined 25.3% despite an increase in Aurrera's peso earnings for the same period. Management expects continued improvement in Aurrera's peso earnings in 1983, though not at a rate sufficient to maintain the same level of translated equity in earnings as experienced in 1982.

The Company's investment in Aurrera is supported both by the expected continued earnings stream and the underlying current value of Aurrera's net assets. Furthermore, Aurrera has no significant U.S. dollar denominated obligations. The impact of events in Mexico on the long-term value of the Company's investment in Aurrera is not certain. However, at this time it does not appear that there has been any permanent impairment of value.

Inventories

The carrying value of inventories stated at LIFO cost was approximately $55,150,000 and $40,735,000 less than the amount of such inventories stated at FIFO cost at January 29, 1983 and January 30, 1982, respectively.

Earnings on a FIFO basis, presented as supplementary information in order to provide a basis for comparison with companies using the FIFO method, would have been greater than reported net earnings by approximately $7,213,000 or $.62 per primary share for fiscal 1982, $9,609,000 or $.83 per primary share for fiscal 1981, and $10,792,000 or $.96 per primary share for fiscal 1980.

Land, Buildings and Equipment

The Company's investment in land, buildings and equipment consists of the following:

	January 29, 1983		January 30, 1982	
(In thousands)	Jewel Cos., Inc.	Real Estate Affiliates	Jewel Cos., Inc.	Real Estate Affiliates
Buildings	$ 97,807	$205,437	$ 95,650	$185,245
Less allowance for depreciation	33,402	58,108	30,891	52,052
	64,405	147,329	64,759	133,193
Equipment and leasehold improvements	794,206		718,071	
Less allowance for depreciation and amortization	392,806		358,816	
	401,400		359,255	
Leased assets under capital leases	65,048		55,740	
Less allowance for amortization	23,733		21,559	
	41,315		34,181	
Land	60,280	64,785	52,227	57,530
Total land, buildings and equipment	$567,400	$212,114	$510,422	$190,723

Short-Term and Long-Term Debt

Debt shown in the statements of financial position consists of the following:

(In thousands)	Jan. 29, 1983	Jan. 30, 1982
Jewel Companies, Inc.:		
Commercial Paper, 13.29% average rate, supported by revolving credit agreements	**$ —**	$ 58,830
Notes, 14.44% average rate	**12,265**	—
Notes, 11½%, due 1992	**50,000**	—
Commercial Banks, 4.50%, due in annual installments of $1,250 through 1987	**6,250**	7,500
Industrial Revenue Bonds, 12.32% and 12.67% average rate, due through 2002	**10,635**	8,731
Insurance Companies:		
6.875%, due in annual installments of $1,500 through 1993	**16,500**	18,000
7.875%, due in annual installments of $1,500 through 1994	**18,000**	19,500
8.25%, due in semiannual installments of $1,500 from 1983 through 1997 with the balance due in 1997	**50,000**	50,000
10%, due in annual installments of $3,500 in 1984 and 1985	**7,000**	7,000
Mortgages, 8.90% average rate, due through 2001	**12,101**	12,421
Capital Lease Obligations, 10.43% and 9.82% average rate, due through 2000	**48,151**	39,993
All Other, 7.14% and 6.57% average rate, due through 1997	**737**	1,105
Total	**$231,639**	$223,080
Classified as follows:		
Current maturities	**$ 11,371**	$ 7,384
Long-term debt	**220,268**	215,696
Total	**$231,639**	$223,080
Real Estate Affiliates, mortgages, 9.93% and 8.89% average rate, due through 2005:		
Current maturities	**$ 8,411**	$ 7,824
Long-term debt	**133,289**	120,778
Total	**$141,700**	$128,602

Long-term debt matures as follows:

(In thousands)	January 29, 1983 Jewel Cos., Inc.	Real Estate Affiliates
1984	$ 15,136	$ 7,926
1985	14,989	8,238
1986	11,174	8,268
1987	11,237	8,347
Thereafter	167,732	100,510
Total	$220,268	$133,289

On December 7, 1982, the Company made a public offering of Notes in the principal amount of $50 million at an interest rate of 11½% per annum due December 1, 1992. Interest on the principal amount of the Notes is payable semiannually on June 1 and December 1. The Notes are unsecured obligations of the Company and may be redeemed beginning December 1, 1989 at a redemption price equal to 100% of the principal amount plus accrued interest.

At January 29, 1983 the Company maintained bank credit lines totaling $152 million, of which $106 million was a revolving credit and term loan agreement and $46 million was in the form of seasonal credit. In February 1983, the revolving credit commitment amount was reduced from $106 million to $79.5 million.

The $106 million revolving credit and term loan agreement was entered into on April 30, 1982 with a number of banks and it replaced both the $50 million and $38 million revolving credit agreements that were in effect as of January 30, 1982. The $106 million agreement provides for a commitment fee of ¼% per annum on the revolving credit commitment amount. If the Company borrows under the agreement, the commitment fee will become ½% per annum retroactive for six months. At the Company's option, bank balances of 3% of the commitment may be maintained in lieu of the above commitment fee. The agreement provides for several interest rate options for borrowing, including a floating prime rate. On or before April 30, 1986 the Company may convert all, or any part of, the outstanding balance into a term loan payable in 12 quarterly installments. The principal amount of the term notes shall be payable as follo our installments each equal to 5% of the original principal amount, four installments each equal to 8% of the original principal amount, and four installments each equal to 12% of the original principal amount. On January 29, 1983, no borrowings were outstanding under this agreement.

At January 29, 1983 $12,265,000 of outstanding notes and at January 30, 1982 $58,830,000 of outstanding commercial paper that were supported by the revolving credit agreements in effect at the respective dates were classified as long-term debt based on the Company's expectation that short-term borrowings averaging in excess of these amounts would be outstanding during the ensuing years.

Most of the seasonal bank lines, which totaled $46 million at

January 29, 1983 and $62 million at January 30, 1982, are supported by cash balances which are largely generated from the normal time lag in presentation of Company checks for payment. The arrangements with the banks are informal in nature and do not restrict the availability of such supporting funds in meeting the Company's daily cash requirements. A small portion of the bank lines are supported by the payment of fees in lieu of balances.

The maximum amount of short-term borrowings (including the amount classified as long-term debt as described above) outstanding during 1982 was $138,000,000 and averaged $77,000,000 on a daily basis. The average interest rate on these borrowings was 11.95%. For fiscal year 1981, the maximum amount outstanding was $146,000,000 and averaged $68,000,000 on a daily basis. The average interest rate on these borrowings was 15.54%.

The Company's loan agreements provide restrictions as to the maintenance of working capital (as defined) and payment of cash dividends on common stock. As of January 29, 1983, working capital was $52,000,000 in excess of minimum requirements and retained earnings not restricted for payment of cash dividends were $70,000,000.

The long-term debt of the real estate affiliates is not a direct obligation of Jewel Companies, Inc. but is secured by the assignment of lease agreements between Jewel and the affiliates and first liens against real properties having a book value of approximately $212,000,000 at January 29, 1983, as compared to $191,000,000 at January 30, 1982. The debt will be fully paid during the fixed term of each lease, generally 20 years.

Income Taxes

The provision for income taxes consists of the following:

(In thousands)	**1982**	1981	1980
Federal:			
Current	**$34,654**	$42,972	$26,008
Deferred	**10,380**	(371)	657
Tax credits	**(11,650)**	(10,425)	(7,975)
Total federal income taxes	**33,384**	32,176	18,690
State and Local:			
Current	**6,830**	9,195	4,821
Deferred	**1,043**	401	75
Total state and local income taxes	**7,873**	9,596	4,896
Total income taxes	**$41,257**	$41,772	$23,586

Deferred income taxes result from timing differences in the recognition of certain income and expense items for tax and financial statement purposes. The provision for deferred federal income taxes consists of the following:

(In thousands)	**1982**	1981	1980
Depreciation	**$11,156**	$ 3,836	$ 3,542
Self-insured claims	**(2,019)**	(1,015)	(2,114)
Other	**1,243**	(3,192)	(771)
Total	**$10,380**	$ (371)	$ 657

A reconciliation of the federal statutory tax rate with the effective tax rate follows:

	1982	1981	1980
Statutory tax rate	**46.0%**	46.0%	46.0%
State income taxes, net of federal income tax benefit	**4.0**	4.7	4.2
Tax credits	**(11.0)**	(9.5)	(12.7)
Effect of Aurrera stock sale	**—**	(3.7)	—
Other	**.1**	—	(.1)
Effective tax rate on U.S. earnings	**39.1**	37.5	37.4
Effect of foreign earnings	**(7.2)**	(8.4)	(10.4)
Effective tax rate on consolidated net earnings	**31.9%**	29.1%	27.0%

No provision has been made for U.S. income taxes on foreign earnings because any income tax payable would be substantially offset by foreign tax credits.

Capital Stock

Common stock transactions were as follows:

(Dollars in thousands)	Shares	Amount
Issued at February 2, 1980	11,678,339	$86,449
Cost of treasury shares sold over proceeds from stock option and stock purchase plans	—	(1,797)
Conversion of Series A convertible preferred stock	102	4
Income tax benefit attributable to stock options	—	1,336
Issued at January 31, 1981	11,678,441	85,992
Cost of treasury shares sold over proceeds from stock option and stock purchase plans	—	(2,064)
Conversion of Series A convertible preferred stock	8,295	291
Gain on retirement of 3¼% preferred stock	—	166
Income tax benefit attributable to stock options	—	1,468
Issued at January 30, 1982	11,686,736	85,853
Issued for stock option and stock purchase plans	6,933	198
Cost of treasury shares sold over proceeds from stock option and stock purchase plans	—	(1,080)
Conversion of Series A convertible preferred stock	4,954	174
Income tax benefit attributable to stock options	—	242
Issued at January 29, 1983	**11,698,623**	**$85,387**

Treasury stock transactions were as follows:

	Common Stock		3¼% Preferred	
(Dollars in thousands)	Shares	Amount	Shares	Amount
Balance at February 2, 1980	494,236	$13,235	7,814	$575
Purchases	—	—	669	52
Sold under stock option and stock purchase plans	(226,564)	(5,644)	—	—
Balance at January 31, 1981	267,672	7,591	8,483	627
Purchases	—	—	7,045	624
Retired	—	—	(6,000)	(434)
Sold under stock option and stock purchase plans	(258,038)	(7,232)	—	—
Balance at January 30, 1982	9,634	359	9,528	817
Purchases	132,510	4,532	37	3
Sold under stock option and stock purchase plans	(77,127)	(1,860)	—	—
Balance at January 29, 1983	**65,017**	**$ 3,031**	**9,565**	**$820**

The 3¾% preferred treasury shares were acquired to meet the sinking fund provision of the issue, which requires full retirement by 1985. In October 1981, 6,000 shares were retired. Sinking fund requirements are satisfied through 1984.

The Series A $2.31 cumulative convertible preferred stock has a liquidation preference of $25 per share and is entitled to .713 of a vote per share. The shares are convertible into .713 of a share of common stock and are callable at the option of the Company after ten years at $26 per share and thereafter at prices declining to $25 in the fifteenth and subsequent years. During 1982 and 1981, 6,955 and 11,640 shares, respectively, were converted into common stock.

Common stock reserved was as follows:

	Jan. 29, 1983	Jan. 30, 1982
Stock option plan	**942,289**	704,262
Employee stock purchase plan	**354,314**	172,304
Automatic dividend reinvestment and stock purchase plan	**28,514**	38,963
Conversion of Series A preferred stock	**2,739,931**	2,744,885
Total common stock reserved	**4,065,048**	3,660,414

The following summary shows the changes in stock options:

	1982	1981
Options outstanding, beginning of year	**587,783**	765,550
Granted	**168,000**	109,000
Exercised	**(161,973)**	(286,767)
Expired	**(7,000)**	—
Options outstanding, end of year	**586,810**	587,783
	Jan. 29, 1983	Jan. 30, 1982
Options exercisable	**418,810**	478,783
Shares available for grant	**355,479**	116,479

Outstanding options were granted at prices ranging from $18.125 to $49.75 per share, the fair market value on the date of grant. Stock options become exercisable one year from the date of grant and expire in ten years. Under the stock option plan, the Company may make loans to officers and key employees for the purpose of financing the exercise of stock options. The minimum interest rate on these loans for calendar year 1983 will be 6.54%, which is equal to the ratio of dividends paid to the average market price for the Company's common stock during the twelve month period ended November 30, 1982.

Under the Company's Automatic Dividend Reinvestment and Stock Purchase Plan for common stock, shareholders of record may purchase additional shares of common stock by reinvesting dividends and making optional cash investments without payment of any brokerage commission or service charge.

Lease Commitments

The Company leases certain of its retail and other locations under firm-term lease arrangements ranging from 5 to 25 years (principally 15 years for retail locations), plus various renewal options. In addition, the Company has an insignificant number of personal property leases (primarily transportation, warehouse handling and data processing equipment) expiring at various dates during the next four years.

As of January 29, 1983 minimum rentals on all non-cancellable leases for real properties under operating leases were as follows:

(In thousands)	Minimum Payments	Sublease Income	Net
1983	$ 50,228	$ 4,962	$ 45,266
1984	46,640	4,373	42,267
1985	42,634	3,709	38,925
1986	39,154	3,153	36,001
1987	35,944	2,739	33,205
Thereafter	279,362	12,034	267,328
Total	**$493,962**	**$30,970**	**$462,992**

Rental expense for operating leases for the past three years was as follows:

(In thousands)	**1982**	1981	1980
Real estate:			
Minimum rentals	**$50,095**	$44,651	$36,907
Contingent rentals (based on sales)	**8,123**	7,863	7,355
Sublease income	**(6,904)**	(4,381)	(4,536)
	51,314	48,133	39,726
Personal property	**7,115**	6,840	6,121
Total	**$58,429**	$54,973	$45,847

Contingent Liabilities—Litigation

In addition to claims and lawsuits arising in the normal course of the Company's business, as of January 29, 1983 there were various actions pending against the Company for substantial damages.

These include 14 antitrust actions for treble damages and other relief under federal law filed by certain cattle producers and feeders since 1975, against Jewel and others alleging price fixing in the purchase and sale of beef. Plaintiffs in one of these actions seek to maintain a class action. All of these actions have been consolidated for pre-trial and discovery purposes in the U.S. District Court in Dallas, Texas. In June and August 1982, the Court granted summary judgment for defendants on plaintiffs' claims for damages in these actions on the basis of the U.S. Supreme Court's decision in the *Illinois Brick* case; plaintiffs are appealing those rulings.

Although management cannot now predict the outcome of these actions, it believes that the Company has good and meritorious defenses to each action, and that their outcome will not materially affect the Company's financial position.

Profit Sharing and Retirement Costs

A majority of the Company's employees who meet service requirements are covered by profit sharing plans under which the Company makes annual contributions, determined by a formula related to earnings, to provide retirement benefits. These funds are held in trust apart from Company funds. Retirement benefits are based on each participant's share of the trust funds. There are no unfunded past service liabilities under these plans. The Company also makes payments to multiemployer pension plans as required by collective bargaining agreements covering some employees; under the Multiemployer Pension Plan Amendments Act of 1980 ("MEPPA"), the Company may be or may become subject to liabilities in excess of those payments in the event of the termination of or its withdrawal or partial withdrawal from multiemployer plans, to be determined as a proportional share of the liabilities, if any, of each such plan for unfunded, vested benefits. The amount of this potential liability under MEPPA is not determinable at the present time.

Sale of Aurrera Stock

During the second quarter of 1981, the Company sold 20 million shares of the stock of Aurrera, S.A. de C.V., in which the Company had a 41.7% equity investment as of January 31, 1981, thus reducing its equity investment position to 36.1%. The sale resulted in a net gain of $17,650,000 or $1.53 per Jewel common share ($1.22 fully diluted).

Discontinued Operation

In January 1981, the Company announced its decision to discontinue ownership of the Jewel Home Shopping Service and transferred ownership of that business to a cooperative organization, formed and managed by certain of its former employees. The transfer was completed in June 1981.

Acquisition

Effective November 6, 1980 the Company acquired Sav-On-Drugs, Inc. The Company acquired 28.3% of the outstanding common shares of Sav-On for $37,929,000 in a cash tender offer and received the remaining Sav-On common shares in exchange for 3,850,745 shares of a new issue of Jewel $2.31 cumulative convertible preferred stock with a fair market value of $96,269,000. The total cost of the acquisition, including expenses, was $138,274,000. The excess of the total acquisition cost over the fair value of net assets acquired was $19,373,000 and is being amortized on the straight-line basis over forty years.

The acquisition has been accounted for as a purchase. Accordingly, the results of operations of Sav-On have been included in the consolidated results of the Company since November 6, 1980.

The following unaudited pro forma data present the results of operations of the Company as if Sav-On had been acquired at the beginning of fiscal 1980. The following data reflects adjustments for interest on borrowed funds, amortization of goodwill, additional depreciation on revalued purchased assets, the conversion from accelerated to straight-line depreciation for book purposes for certain of Sav-On's assets and preferred dividend requirements for the new cumulative convertible preferred stock.

(In thousands except per share data)	1980
Sales	$4,731,567
Earnings from continuing operations	$ 65,345
Net earnings	$ 56,691
Per average common share outstanding—	
Primary:	
Earnings from continuing operations	$ 5.00
Net earnings	$ 4.23
Fully diluted:	
Earnings from continuing operations	$ 4.58
Net earnings	$ 3.98

Business Segments

The Company is a diversified retailer engaged primarily in the retail sale of food, drugs and general merchandise. The Company is engaged in the supermarket business under the Buttrey, Eisner, Jewel and Star trade names and in the drug store business under the Osco Drug and Sav-On-Drugs trade names. Other operations include White Hen Pantry (convenience stores), Mass Feeding Corporation (school lunch programs), Park Corporation (manufacturing operations) and Jewel T (limited-line discount grocery stores). "Unallocated" items consist principally of general corporate expenses and miscellaneous income.

In computing earnings before income taxes, none of the following items have been included: gain on the sale of Aurrera stock, loss from a discontinued operation and equity in Aurrera, S.A. de C.V. Interest expense has been allocated based upon net-owned assets.

Identifiable assets are those assets associated with a particular segment either by direct use or by allocation when used by two or more segments. Unallocated assets include short-term investments and certain land, buildings and equipment.

(In thousands)	**1982**	1981	1980
Sales:			
Supermarkets	**$3,487,870**	$3,242,906	$3,096,041
Drug stores*	**1,668,562**	1,455,147	859,903
Other operations	**415,289**	409,561	311,978
Total	**$5,571,721**	$5,107,614	$4,267,922
Earnings Before Income Taxes:**			
Supermarkets	**$ 48,751**	$ 46,496	$ 41,746
Drug stores*	**58,825**	45,244	22,775
Other operations	**6,502**	1,987	1,185
Unallocated—net	**(8,594)**	(9,524)	(2,672)
Total	**$ 105,484**	$ 84,203	$ 63,034
Identifiable Assets:			
Supermarkets	**$ 684,046**	$ 646,735	$ 613,379
Drug stores*	**555,277**	484,985	438,595
Other operations	**79,758**	92,213	85,200
Investment in Aurrera	**58,052**	67,287	75,873
Unallocated	**97,672**	88,651	82,728
Total	**$1,474,805**	$1,379,871	$1,295,775

*Includes Sav-On since its acquisition on November 6, 1980.
**Excludes $27,285 gain on sale of Aurrera stock in 1981.

(In thousands)	**1982**	1981	1980
Capital Expenditures (net):			
Supermarkets	**$ 82,370**	$ 67,788	$ 55,274
Drug stores*	**62,721**	40,625	25,286
Other operations	**8,024**	10,769	9,208
Unallocated	**14,132**	7,001	2,647
Total	**$ 167,247**	$ 126,183	$ 92,415
Depreciation Expense:			
Supermarkets	**$ 45,336**	$ 43,821	$ 41,446
Drug stores*	**20,670**	16,731	9,851
Other operations	**6,016**	6,424	5,381
Unallocated	**7,172**	5,944	5,136
Total	**$ 79,194**	$ 72,920	$ 61,814

*Includes Sav-On since its acquisition on November 6, 1980

The LIFO method of accounting for inventories reduced earnings before income taxes, by segment, as follows:

(In thousands)	**1982**	1981	1980
Supermarkets	**$ 3,599**	$ 5,772	$ 10,678
Drug stores*	**10,271**	12,318	9,151
Other operations	**545**	1,103	1,713
Total	**$ 14,415**	$ 19,193	$ 21,542

*Includes Sav-On since its acquisition on November 6, 1980.

Costs and Expenses

Set forth below is a comparative summary of significant costs and expenses:

(In thousands)	1982	1981	1980
Depreciation and Amortization—			
Jewel Companies, Inc.:			
Buildings	**$ 3,143**	$ 3,103	$ 1,837
Equipment and leasehold improvements	**66,085**	60,991	51,564
Capital leases	**3,610**	3,033	2,916
	72,838	67,127	56,317
Real estate affiliates:			
Buildings	**6,356**	5,793	5,497
Total	**$79,194**	$72,920	$61,814

(In thousands)	1982	1981	1980
Taxes, Other than Payroll and Income.			
Property	**$20,530**	$18,396	$17,284
Other	**2,973**	2,626	2,151
Total	**$23,503**	$21,022	$19,435
Advertising	**$64,660**	$59,861	$49,635
Retirement Benefit Plans:			
Profit sharing plans	**$26,582**	$22,290	$19,467
Contingent compensation	**1,906**	1,668	4,043
Industry and other pension plans	**11,013**	10,706	6,352
Total	**$39,501**	$34,664	$29,862

Earnings Per Common Share

Earnings per common share is computed by dividing net earnings, after deducting preferred stock dividend requirements, by the weighted average number of common shares outstanding. Fully diluted net earnings per share assumes conversion of the Series A cumulative convertible preferred stock and the exercise of dilutive outstanding stock options. The Series A preferred dividend requirement is not deducted from net earnings in computing fully diluted net earnings per share.

The computation of primary and fully diluted earnings per share follows:

(In thousands except per share data)	1982	1981	1980
Primary Earnings Per Share			
Net earnings	**$88,109**	$101,670	$55,210
Less: Preferred dividend requirements for 3¾% cumulative preferred stock and Series A preferred stock	**8,886**	8,908	2,191
Net earnings applicable to common stock	**$79,223**	$ 92,762	$53,019
Average common shares outstanding	**11,624**	11,554	11,293
Primary earnings per share	**$ 6.82**	$ 8.03	$ 4.70
Fully Diluted Earnings Per Share			
Net earnings	**$88,109**	$101,670	$55,210
Less: Preferred dividend requirements for 3¾% cumulative preferred stock	**4**	10	30
Net earnings applicable to common stock	**$88,105**	$101,660	$55,180
Average common shares outstanding	**11,624**	11,554	11,293
Additional shares outstanding after application of treasury stock method:			
Stock option plan	**128**	161	203
Employee stock purchase plan	**11**	5	4
Conversion of Series A preferred stock	**2,742**	2,746	642
Average common shares outstanding assuming full dilution	**14,505**	14,466	12,142
Fully diluted earnings per share	**$ 6.07**	$ 7.03	$ 4.54

Information on Effects of Changing Prices

(Unaudited)

In an attempt to measure the effects of inflation on financial statements, the Financial Accounting Standards Board issued Statement No. 33—Financial Reporting and Changing Prices, which requires the disclosure of the effects of changing prices on historical cost financial statements. Two different methods were prescribed by the FASB for measuring the effects of changing prices.

The first method, or constant dollar method, provides data adjusted for "general inflation" using the Consumer Price Index for all Urban Consumers as the broad-based measure of the general inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value or purchasing power (constant dollars). The second method, or current value method, adjusts for "changes in specific prices". The objective of this method is to reflect the current cost of the resources actually used in a company's operations rather than the historical cost amounts actually expended to acquire the resources.

The accompanying supplemental information regarding Jewel's operations should be used with care. Both the constant dollar and current value methods involve the use of assumptions, estimates and subjective judgments and, therefore, the data presented does not have the precision or verifiability of data prepared in accordance with traditional accounting practices. For the same reason, the data may not be comparable with that presented by other companies, even within the same industry. Management does not believe that the constant dollar restatement of Jewel's financial results properly reflects the effect of inflation on the Company's operations. Further, the restated net assets should not be interpreted as a measure of the current value of the Company's resources.

Statements of Earnings (Unaudited)
Adjusted for Effects of Changing Prices

	52 Weeks Ended January 29, 1983		
(In thousands)	As Reported in the Primary Financial Statements	Adjusted for General Inflation	Adjusted for Specific Price Changes
Sales	$5,571,721	$5,571,721	$5,571,721
Costs of Doing Business:			
Cost of goods sold	4,410,667	4,414,967	4,414,167
Depreciation and amortization	79,194	118,856	113,836
Selling, general and administrative expenses	942,622	942,622	942,622
	5,432,483	5,476,445	5,470,625
Operating Earnings	139,238	95,276	101,096
Net Interest Expense	33,754	33,754	33,754
Earnings of U.S. Companies Before Income Taxes	105,484	61,522	67,342
Income Taxes	41,257	41,257	41,257
Earnings of U S Companies	64,227	20,265	26,085
Equity in Aurrera, S.A. de C.V.	23,882	23,882	23,882
Net Earnings	$ 88,109	$ 44,147	$ 49,967
Purchasing Power Gain From Holding Net Monetary Liabilities During the Year		$ 28,000	$ 28,000
Increase in Specific Prices of Inventories and Net Land, Buildings and Equipment Held During the Year*			$ 75,000
Effect of Increase in the General Price Level			60,000
Excess of Increase in Specific Prices Over Increase in the General Price Level			$ 15,000

**At January 29, 1983 current cost of inventory was $533,000 and current cost of land, buildings and equipment net of accumulated depreciation was $1,138,000*

Five Year Comparison of Selected Supplementary Financial Data (Unaudited)
Adjusted for Effects of Changing Prices

(In thousands except per share data)	1982	1981	1980	1979	1978
Sales (includes Sav-On since 11/6/80):					
As reported	**$5,571,721**	$5,107,614	$4,267,922	$3,684,929	$3,434,113
Adjusted for general inflation	**5,571,721**	5,401,926	4,968,677	4,857,406	5,057,861
Earnings (Loss) from Continuing Operations.					
As reported	**$88,109**	$101,670	$63,864	$48,590	
Adjusted for general inflation	**44,147**	51,474	7,991	(17,667)	
Adjusted for specific price changes	**49,967**	72,627	34,766	777	
Primary Earnings (Loss) Per Share from Continuing Operations					
As reported	**$6.82**	$8 03	$5.46	$4 36	
Adjusted for general inflation	**3.03**	3 64	.51	(1.58)	
Adjusted for specific price changes	**3.53**	5 47	2 88	06	
Purchasing Power Gain from Holding Net Monetary Liabilities During the Year	**$28,000**	$62,000	$80,000	$93,000	
Net Assets at Year End·					
As reported	**$576,239**	$555,750	$504,530	$371,842	
Adjusted for general inflation	**970,000**	972,000	935,000	845,000	
Adjusted for specific price changes	**979,000**	966,000	933,000	850,000	
Cash Dividends Declared Per Common Share·					
As reported	**$2.48**	$2.24	$1 92	$1 68	$1 41
Adjusted for general inflation	**2.48**	2 37	2 24	2 21	2 08
Market Price Per Common Share at Year End·					
Historical amount	**$43.50**	$33.63	$35.50	$28 63	$20 13
Adjusted for general inflation	**43.04**	34.52	39 52	35 60	28 51
Average Consumer Price Index (1967 = 100 0)	**290.0**	274 2	249 1	220 0	196 9

Quarterly Data
(Unaudited)

	Quarter				
(In thousands except per share data)	First (12 Weeks)	Second (16 Weeks)	Third (12 Weeks)	Fourth (12 Weeks)	**Total Year**
1982					
Sales	$1,241,045	$1,687,366	$1,250,713	$1,392,597	**$5,571,721**
Gross profit	246,550	348,920	246,513	299,272	**1,141,255**
Net earnings	16,838	25,416	15,900	29,955	**88,109**
Primary earnings per share	$ 1.26	$ 1.95	$ 1 20	$ 2 41	**$ 6.82**
Fully diluted earnings per share	$ 1.16	$ 1 76	$ 1 08	$ 2 07	**$ 6.07**
Dividends declared per common share	$ .62	$ .62	$ 62	$ .62	**$ 2.48**
Common stock price (Composite tape).					
High	$ 34	$ 36⅞	$ 48¼	$ 50	**$ 50**
Low	$ 28¾	$ 31	$ 32⅝	$ 41⅝	**$ 28¾**
1981					
Sales	$1,124,110	$1,522,645	$1,146,717	$1,314,142	**$5,107,614**
Gross profit	222,815	308,419	231,914	276,613	**1,039,761**
Net earnings	14,276	39,447	13,770	34,177	**101,670**
Primary earnings per share	$ 1 05	$ 3 19	$ 1 02	$ 2 77	**$ 8.03**
Fully diluted earnings per share	$ 99	$ 2.72	$ 95	$ 2.37	**$ 7.03**
Dividends declared per common share	$ .56	$ .56	$ .56	$ 56	**$ 2.24**
Common stock price (Composite tape)·					
High	$ 44	$ 45¼	$ 38¼	$ 38	**$ 45¼**
Low	$ 35	$ 32	$ 31⅞	$ 32	**$ 31⅞**

Condensed Financial Statements—Aurrera, S.A. de C.V.

(Unaudited)

The Company had a 36.1% investment in Aurrera, S.A. de C.V. as of January 29, 1983 and January 30, 1982 that was accounted for by the equity method. The fiscal year of Aurrera ends on July 31 whereas the Company's fifty-two week fiscal year ends on or about January 31. However, the Company determines its equity in the net earnings of Aurrera based on financial statements of Aurrera at December 31. The financial statements of Aurrera at December 31, 1982, 1981 and 1980 are based upon audited financial statements examined by a major international public accounting firm as of July 31, 1982, 1981 and 1980, the end of Aurrera's fiscal year, and unaudited financial statements for the periods from August 1 to December 31. Following is a condensed summary of Aurrera's translated financial statements adjusted to reflect U.S. accounting principles:

Statements of Financial Position

(In thousands)	**December 31, 1982**	December 31, 1981
Aurrera, S.A. de C.V. and Subsidiaries		
Current and other assets	**$113,966**	$327,280
Properties, net	**141,235**	146,638
Total assets	**255,201**	473,918
Current liabilities	**110,576**	300,700
Long-term debt	**365**	3,402
Net assets**	**$144,260**	$169,816
Reconciliation to Jewel's Investment		
Equity in net assets	**$ 52,131**	$ 61,366
Reorganization adjustments not recognized by Jewel	**(4,957)**	(4,957)
Excess of cost over acquired net assets	**10,878**	10,878
Carrying value of investment**	**$ 58,052**	$ 67,287

Statements of Earnings

(In thousands)	**Year Ended December 31, 1982**	Year Ended December 31, 1981	Year Ended December 31, 1980
Aurrera, S.A. de C.V. and Subsidiaries			
Sales*	**$865,726**	$1,367,202	$985,967
Earnings before statutory profit sharing and income taxes	**118,223**	150,398	109,791
Statutory profit sharing and income taxes	**(48,834)**	(58,766)	(44,703)
Net earnings**	**$ 69,389**	$ 91,632	$ 65,088
Jewel's Foreign Earnings			
Equity in net earnings	**$ 25,075**	$ 34,953	$ 27,137
Dividend withholding tax provided	**(1,193)**	(2,999)	(2,721)
Equity in Aurrera, S.A. de C.V.**	**$ 23,882**	$ 31,954	$ 24,416

**Peso sales increased 61 6%, 49 4% and 47% in 1982, 1981 and 1980, respectively.*

***The results for the 1982 and 1981 fiscal years are reported in accordance with FASB Statement No. 52. The results for 1980 are reported in accordance with FASB Statement No. 8.*

Five Year Summary of Selected Financial Data*

Jewel Companies, Inc.

(In thousands except per share data)	1982	1981**	1980	1979	1978†
Operating Results					
Sales	**$5,571,721**	$5,107,614	$4,267,922	$3,684,929	$3,434,113
Earnings of U.S. companies from continuing operations	**$ 64,227**	$ 69,716	$ 39,448	$ 34,047	$ 31,479
Equity in Aurrera, S.A. de C.V.	**23,882**	31,954	24,416	14,543	8,476
Earnings from continuing operations	**$ 88,109**	$ 101,670	$ 63,864	$ 48,590	$ 39,955
U.S. earnings from continuing operations as a percent of sales	**1.15%**	1.02%††	.92%	.92%	.92%
Earnings from continuing operations as a percent of shareholders' average equity	**15.6%**	16.1%††	15.2%	13.7%	12.0%
Per Share Results					
Earnings from continuing operations:					
Primary	**$ 6.82**	$ 8.03	$ 5.46	$ 4.36	$ 3.49
Fully diluted	**$ 6.07**	$ 7.03	$ 5.25	$ 4.28	$ 3.48
Dividends declared per common share	**$ 2.48**	$ 2.24	$ 1.92	$ 1.68	$ 1.405
Percent of primary earnings	**36%**	34%††	35%	39%	40%
Equity per common share	**$ 41.28**	$ 39.35	$ 35.70	$ 33.17	$ 30.41
Financial Position					
Working capital	**$ 132,586**	$ 147,526	$ 162,050	$ 115,210	$ 98,337
Total assets	**1,474,805**	1,379,871	1,295,775	1,009,462	956,101
Long-term debt, less current maturities:					
Jewel Companies, Inc.	**220,268**	215,696	230,525	159,624	142,195
Real estate affiliates	**133,289**	120,778	118,661	123,450	126,357
Common shareholders' equity	**480,209**	459,542	407,417	370,973	338,509
Other Statistical Data					
Employees (full-time equivalents)	**37.5**	36.9	37.2	31.4	31.2
Square footage of retail stores:					
Supermarkets	**10,601**	10,421	10,255	10,562	10,523
Drug stores	**10,060**	9,468	9,039	4,644	4,582
Other operations	**2,094**	2,507	2,288	2,014	1,068
Total at year end	**22,755**	22,396	21,582	17,220	16,173

*In 1980, the Company adopted the last-in, first-out (LIFO) method of inventory valuation. Earnings from continuing operations on a FIFO basis, presented as supplementary information in order to provide a basis for comparison with prior years and with companies using the FIFO method, would have been greater than reported earnings from continuing operations by $7,213 ($.62 per share) in 1982, $9,609 ($.83 per share) in 1981 and $10,792 ($.96 per share) in 1980. 1979 and prior years were reported on the FIFO basis.

**Includes $17,650 or $1.53 per share ($1.22 fully diluted) gain on the sale of Aurrera stock.

†53-week year, other years 52 weeks.

††Excludes gain on sale of Aurrera stock.

Board of Directors

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President, Loyola University of Chicago

Karl D. Bays[4]
Chairman and Chief Executive Officer
American Hospital Supply Corporation
(Health products and services)

Silas S. Cathcart[2,3,4]
Chairman, Illinois Tool Works, Inc.
(Fasteners, tools, electronic components & plastic packaging products)

Weston R. Christopherson[3]
Chairman of the Board and Chief Executive Officer

Richard G. Cline[3]
President and Chief Operating Officer

Stephen M. DuBrul, Jr.[1,2]
Consultant and Private Banker

Lawrence E. Fouraker[1]
Professor of Business Administration
Harvard Business School

Louis V. Gerstner, Jr.[1]
Chairman of the Executive Committee
American Express Company
(Insurance, travel related, international banking and investment services)

Lawrence Howe[3]
Vice Chairman

Richard B. Ogilvie[3,4]
Partner, Isham, Lincoln & Beale (Attorneys)

James E. Olson[2,4]
Vice Chairman
American Telephone and Telegraph Company
(Telecommunications and information services)

Donald S. Perkins[3]
Chairman of the Executive Committee

Barbara Scott Preiskel[1]
Attorney

[1]Audit Committee
[2]Nominating Committee
[3]Executive Committee
[4]Salaries and Employee Benefits Committee

Corporate Officers

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Richard G. Cline
President and Chief Operating Officer

Lawrence Howe
Vice Chairman

Donald S. Perkins
Chairman of the Executive Committee

Robert P. Dorsher
Senior Vice President

Thomas F. Harwood
Senior Vice President

Clifford R. Johnson
Senior Vice President

Gene B. Kilham
Senior Vice President

Stephen C. Adams
Vice President, Information Systems

John N. Balch
Vice President and Treasurer

John L. Benner
Vice President and Controller

Robert F. Berrey
Vice President, General Counsel and Secretary

Robert D. Jones
Vice President, Public Affairs

Bruce L. Margolis
Vice President, Human Resources

Charles E. McClellan
Vice President, Taxes

Thomas M. Nielsen
Vice President, Compensation and Benefits

Jacob J. Schnur
Vice President and Chief Real Estate Counsel

1982 Management Changes

		Age	Years with Jewel	Company
In fiscal 1982, the following people became company vice presidents:	David W. Bell	38	22	Eisner
	William J. Bolton	36	17	Jewel Food Stores
	Russell T. Ciombor	40	19	Jewel Food Stores
	Michael F. DePaola	38	9	Jewel Food Stores
	Stephen L. Mannschreck	37	13	Osco Drug
	Tim D. Wade	41	22	Eisner
	James H. Wisner	33	16	Eisner
One became a company president:	Ronald J. Floto	40	9	Buttrey
One was elected to a Jewel corporate office	Robert L. Broadhead	33	10	Assistant Controller—Auditing
Five officers moved from one Jewel company to another:	Dennis K. Eck	39	13	Sav-On-Drugs
	J. Patrick Johnston	39	18	Sav-On-Drugs
	Byron K. Luke	48	25	Sav-On-Drugs
	Robert C. Nakasone	35	11	Jewel Food Stores
	W. Steven Rubow	41	20	Star Market
Several were appointed to higher offices in their companies	Marshall J. Collins	41	20	Executive Vice President, Stores, Jewel Food Stores
	George E. Grismer	52	5	Vice President, Administration, & Controller, Sav-On-Drugs
	Terry J. Hanson	36	13	Vice President, Chicagoland Operations, Osco Drug
	Thomas F. Harwood	45	18	Senior Vice President, Jewel Companies, Inc.
	William M. Jacobs, Jr.	43	15	Executive Vice President, Administration, Osco Drug

Jewel Companies and Presidents

Buttrey Food Stores
601 Sixth Street, S.W.
Great Falls, Montana 59404
Ronald J. Floto

Eisner Food & Agency Stores
301 East Wilbur Heights Road
Champaign, Illinois 61820
David L. Diana

Jewel Food Stores
1955 West North Avenue
Melrose Park, Illinois 60160
James H. Henson

Jewel T Discount Grocery
511 Lake Zurich Road
Barrington, Illinois 60010
Ronald D. Peterson

Mass Feeding Corporation
1699 East Woodfield Road
Schaumburg, Illinois 60193
K. Lee Guse

Osco Drug, Inc.
1818 Swift Drive
Oak Brook, Illinois 60521
Richard E. George

The Park Corporation
511 Lake Zurich Road
Barrington, Illinois 60010
Herman T. Landon

Sav-On-Drugs, Inc.
1500 S. Anaheim Blvd.
Anaheim, California 92805
Samuel J. Parker

Star Market Company
625 Mt. Auburn Street
Cambridge, Massachusetts 02138
W. Bruce Krueger

White Hen Pantry
666 Industrial Drive
Elmhurst, Illinois 60126
Robert G. Robertson

Jewel Companies, Inc.
O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631

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